

CITY OF
LYNCHBURG, VIRGINIA



KEMPER STREET STATION

Comprehensive Annual Financial Report
For the fiscal year ended June 30, 2002

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2002

**CITY OF LYNCHBURG,
VIRGINIA**

Prepared by:
Department of Finance

CITY OF LYNCHBURG, VIRGINIA

Comprehensive Annual Financial Report Year Ended June 30, 2002

TABLE OF CONTENTS

INTRODUCTORY SECTION

Letter Of Transmittal	i - vii
Directory Of Principal Officials	viii
Organizational Chart	ix
Certificate Of Achievement For Excellence In Financial Reporting	x

FINANCIAL SECTION

Independent Auditors' Report	1 - 2
Management's Discussion and Analysis	3a-n
Basic Financial Statements	
Government-wide financial statements:	
Statement of Net Assets	4
Statement of Activities	5
Fund Financial Statements:	
Balance Sheet – Governmental Funds	6
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	7
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	8
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	9
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	10
Statement of Net Assets – Proprietary Funds	11
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	12
Statement of Cash Flows – Proprietary Funds	13
Statement of Fiduciary Net Assets – Agency Fund	14
Notes to Financial Statements	15 - 43
Required Supplemental Information	
Schedule of Funding Progress for Defined Benefit Pension Plan	44
Other Supplemental Information	
Combining and Individual Fund Statements and Schedules	
Nonmajor Governmental Funds	45 - 46
Combining Balance Sheet – Nonmajor Governmental Funds	47
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	48
Nonmajor Special Revenue Funds	
Combining Balance Sheet	49 - 50
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	51 - 52

CITY OF LYNCHBURG, VIRGINIA

Comprehensive Annual Financial Report Year Ended June 30, 2002

TABLE OF CONTENTS

Discretely Presented Component Unit – Lynchburg City Schools	53
Combining Balance Sheet	54
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	55
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Discretely Presented School Component Unit to the Statement of Activities	56
School Operating Fund:	
Schedule of Revenues, Expenditures and Other Financing Sources (Uses) – Budget and Actual (Non-GAAP Budgetary Basis)	57
Discretely Presented Component Unit – Other	
Combining Statement of Net Assets	58
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets	59
Combining Statement of Cash Flows	60
Supplemental Schedules	
Computation of Legal Debt Margin	61
Schedule of Expenditures of Federal Awards	62 - 64
Notes to Schedule of Expenditures of Federal Awards	65 - 66
Schedule of Passenger Facility Charges	67
Schedule of Expenditures of Passenger Facility Charges	68

STATISTICAL SECTION

Table 1 - Revenues and Expenditures – Governmental Fund Types – Last Ten Fiscal Years (Unaudited)	69
Table 2 - Assessed Value of Taxable Property – Last Ten Fiscal Years (Unaudited)	70
Table 3 - Property Tax Rates - Per \$100 Assessed Valuation – Last Ten Fiscal Years (Unaudited)	71
Table 4 - Property Tax Levies and Collections – Last Ten Fiscal Years (Unaudited)	72
Table 5 - Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt Per Capita – Last Ten Fiscal Years (Unaudited)	73
Table 6 - Principal Taxpayers (Unaudited)	74
Table 7 - Property Value, Construction and Bank Deposits – Last Ten Fiscal Years (Unaudited)	75
Table 8- Ratio of Annual Debt Service Expenditures for General Bonded Debt to Total General Fund Expenditures, Transfers to School Operating Fund, and Reserve Allocations - Last Ten Fiscal Years (Unaudited)	76
Table 9 - Demographic Statistics – Last Ten Fiscal Years (Unaudited)	77
Table 10 - Miscellaneous Statistics (Unaudited)	78 - 79

CITY OF LYNCHBURG, VIRGINIA

**Comprehensive Annual Financial Report
Year Ended June 30, 2002**

TABLE OF CONTENTS

COMPLIANCE SECTION

Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting in Accordance with <i>Government Auditing Standards</i>	80 - 81
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control over Compliance in Accordance with OMB Circular A - 133	82 - 83
Independent Auditors' Report on Compliance with Requirements Applicable to the Passenger Facility Charge Program and on Internal Controls over Compliance in Accordance with the Passenger Facility Charge Program Audit Guide	84 - 85
Schedule of Findings and Questioned Costs	86 - 87

INTRODUCTORY SECTION



The City of Lynchburg, Virginia

CITY HALL, LYNCHBURG, VIRGINIA 24505 • (434) 847-1443
FAX • (434) 847-1536
www.lynchburgva.gov

OFFICE OF THE
CITY MANAGER

November 27, 2002

The Honorable Mayor and Members of the City Council
City of Lynchburg, Virginia

The Comprehensive Annual Financial Report (CAFR) for the City of Lynchburg (the "City") for the year ended June 30, 2002, is hereby submitted in accordance with the *City Code* and State statutes. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds, account groups, and component units of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The Comprehensive Annual Financial Report is presented in four sections: Introductory, Financial, Statistical, and Compliance. The Introductory Section includes this letter of transmittal, the City's organization chart, and a list of principal officials. The Financial Section includes the management discussion and analysis, general-purpose financial statements and the combining and individual fund financial schedules. The Statistical Section, which is unaudited, includes selected financial and demographic information generally presented on a multi-year basis. The Compliance Section includes the auditor's reports on grant compliance and testing of internal controls in conformity with Generally Accepted Auditing Standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and requirements of the Auditor of Public Accounts of the Commonwealth of Virginia.

The financial reporting entity includes all funds and account groups of the primary government (i.e., the City of Lynchburg), as well as all of its component units. Component units are legally separate entities for which the primary government is financially accountable. The City provides a full range of municipal services including general administration, judicial functions, police and fire protection, parks and recreation, libraries/culture, health, juvenile and social services, maintenance of streets and highways, economic development, and community planning. The City also owns and operates water and sewer systems, a municipal landfill, and a regional airport. The City's discretely presented component units, Lynchburg City Schools, Business Development Centre, Inc., and Greater Lynchburg Transit Company, provide public education, various small business services, and public transportation, respectively, to the citizens of the City. These component units are included in separate columns in the City's combined financial statements to emphasize that they are legally separate from the City and to differentiate their financial position and results of operations from that of the City. Each of these component units' governing bodies is appointed by City Council. Excluded are the financial statements of the Lynchburg Redevelopment and Housing Authority and the Industrial Development Authority of the City of Lynchburg. These organizations are associated with the City, but are legally separate entities which operate with considerable autonomy outside the direct control of City Council and for which the City is not financially accountable. Also, excluded are the financial statements of the Blue Ridge Regional Jail Authority and the Central Virginia Community Services Board, which are jointly governed organizations.



International
City
Management
Association

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Lynchburg for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2001. This was the sixth consecutive year that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. The report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The City believes that this Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program requirements and we will be submitting it to the GFOA to determine its eligibility for another certificate.

Local Economic Condition and Outlook

Approximately 120 miles west of the State capital, Richmond, and midway between the cities of New York and Atlanta, Lynchburg is an important commercial center for a four-county region. The City benefits from an economy that has been relatively stable and remains diversified among the manufacturing, service, technology, and trade sectors.

City Council and management of the City have an aggressive economic development program that is committed to creating jobs for its citizens and generating new sources of tax revenue by strengthening and diversifying the local economy through the attraction of new businesses and the retention and expansion of existing businesses. This commitment, the strategic location of the City, a strong workforce, a moderate climate, and desirable available real property make Lynchburg an attractive location for an ever-increasing mix of business.

The City, through its Industrial Development Authority, has a program of local economic development incentives designed to enhance the City's competitiveness for new industry and business and to support the expansion of existing basic employers. The performance-based incentives provide for, but are not limited to, consideration of site cost reduction, site preparation costs, cash grants/investments, and the potential for water, sewer, and solid waste contracts for large volume users. New and existing businesses must satisfy certain criteria for amounts of incremental investment and/or increased full-time job equivalents to be entitled to locally funded incentives. The program is also designed to provide matching funds to state incentives. Since inception of the program in 1994 and through June 30, 2002, a total of \$9,968,292 in local economic development incentives has been awarded. The City also owns and manages two industrial parks with a total of approximately 600 acres with approximately 178 acres available for development. The Lynchburg Center for Industry is approximately 80% developed and the Lynchpin Industrial Center has 50% occupancy.

The City also helps support a Small Business Development Center, which was established to help small start-up businesses with one-stop support services.

The City understands the importance of creating an environment that is business friendly and is working hard to improve services to the business community while continually searching for innovative ways to assist business. In March 2002, Lynchburg City Council approved a Technology Zone Ordinance. The Commonwealth of Virginia allows cities, counties and towns to establish, by ordinance, one or more technology zones to attract growth in targeted industries. Qualified businesses locating or expanding in such a zone may receive local permit and user fee waivers, local tax incentives, and capital investment grants. Incentives may be provided for up to ten years. The City established two technology zones: a Downtown Technology Zone; and the Lynchpin Technology Zone, which is located in the Lynchpin Industrial Center.

In January 1999, the City Council approved the development of a new "big box" shopping center on Wards Road, which includes approximately 428,000 square feet of new retail space. Some of the major retail stores that initially located in the new shopping center included Target, PetSmart, Barnes and Noble, Dick's Sporting Goods, and Best Buy. Construction of this shopping center was completed in late summer 2000. The Wards Road shopping complex continues to add new stores in its 428,000 square feet of space furthering the City's position as the retail and service center for the region. During FY 2002, two additional stores Bed Bath and Beyond and Michael's located in the shopping center.

The City experienced limited growth in the industrial, commercial, technology and retail sectors during FY 2002. M/A-COM is nearing completion of a \$14,000,000 research and development facility. Frito-Lay completed a \$15,000,000 expansion, while Azdel Plastics completed a \$10,000,000 expansion. Work is continuing on the \$200,000,000 residential, institutional, retail, and commercial development known as Wyndhurst.

The Kemper Street Area Development Project continues to progress. This project is a mixed-use inner City revitalization effort with four elements which include: 1) the renovation and adaptive reuse of the Kemper Street Railway Station has been completed; 2) the redevelopment of a vacated industrial use site for a manufacturing facility; 3) the construction of a hiking/biking trail and; 4) infrastructure improvements have been completed. The Lynchburg Industrial Development Authority has approved the building concept for the manufacturing facility. The hiking/biking trail will be complete by the end of 2003.

In recognition of the shared commitment and belief that economic growth in any of the region's communities benefits the entire region, business, government and community leaders of the City and surrounding jurisdictions continue to participate in Virginia's Region 2000. Virginia's Region 2000 partners with the private sector and supports an ongoing local, state, national and international economic development program in central Virginia. This program is supported through voluntary contributions from participating businesses, organizations, and jurisdictions that contribute on a per capita basis. Since its inception, Virginia's Region 2000 has assisted the City and surrounding counties in attracting and locating business and industry to the area. The organization worked on revising its strategic plan in Fiscal Year 2002 while continuing to focus on its priorities of training and workforce development.

The recent economic downturn has had an impact upon the local economy. During FY 2002, the layoffs at Ericsson facilities have contributed greatly to unemployment rate increase.

FY 2002 Accomplishments

Comprehensive Plan

During FY 2002, the City substantially completed work on a new Comprehensive Plan. Virginia law requires that each city, town, and county have a Comprehensive Plan and that it be reviewed at least every five years. As adopted, the plan provided the City with a framework for consistent decision-making in the areas of land use, public facilities and utilities, resource protection, housing, transportation, economic development, and capital improvements. The City's Planning Commission is responsible for implementing the plan and City Council will be the adopting authority during implementation. The vision, goals, and objectives included in the plan will be used to guide the implementation of the plan, beginning with strategies included in the five-year Implementation Program. This Implementation Program includes revisions to the City's zoning ordinance, subdivision control ordinance, and other ordinances, as necessary. At the same time, neighborhood conservation plans, a transportation master plan, corridor studies, resource conservation plans, and revitalization area plans will be prepared and adopted as part of the Comprehensive Plan.

Information Technology

The City continues to expand the use of technology to serve citizens better and to improve operations. Several services are now available through the City's Internet site, including the ability to pay certain taxes online, to access real estate property data, and to view maps of the City. Additional services, including the ability to apply for employment and to pay utility bills, are planned to be added in the coming months.

In the area of telecommunications infrastructure, the City is realizing many benefits from the sale of its fiber optic network to Ntelos, Inc., which occurred in September 2000. As a result of this sale and the resulting contract for telecommunications services, the City's ongoing telecommunications costs are now approximately 50% less than what they were before the contract. Citizens are also directly seeing the benefit of the availability of competitive broadband services. Using the fiber optic infrastructure that it purchased from the City, Ntelos is offering Digital Subscriber Line (DSL) service throughout Lynchburg. Ntelos has also extended the fiber optic network into seven industrial areas, providing competitive high-speed data capabilities to businesses. High-speed

data services have also been extended to twelve Community Centers and after-school learning locations, enabling computer-based training and Internet-based programs to be provided in these locations.

Downtown and Riverfront Development/Redevelopment

The City continues to implement elements of the Downtown/Riverfront Master Plan. The twenty-year plan encompassing a fifty-block area was developed by Sasaki & Associates and Economics Research Associates. The plan focuses on four areas: infrastructure/public space improvements, culture and entertainment, commercial development, and government projects.

Phase One of the infrastructure improvements is underway and includes streetscape improvements for the major north-south avenue through downtown and adjoining side streets. The improvements include new stone and brick sidewalks, street trees, historic lampposts, benches, and other amenities. Three blocks will be completed by June 2003 and the famous Monument Terrace grand stairway will be completed by June 2004. Phase One of the public space improvements is also underway and includes initial components of the Riverfront Park. These improvements include the transformation of a former railroad yard to a large lawn for festivals and light sports, complimented by street trees, and the Jefferson Street promenade. The goal of the infrastructure/public space improvements is to attract more activity and private development in the downtown. The public investment for the projects totals nearly \$4 million.

The first cultural project to open in March 2001 was Amazement Square Children's Museum. The museum has attracted over 100,000 visitors – well above projections of only 30,000 per year. The museum has become destination for families throughout the Commonwealth. The museum has helped boost sales at local shops, restaurants, and hotels. The second cultural project to open recently in downtown is the Dance Theatre of Lynchburg. The studio offers a variety of dance classes for all ages and levels, and holds performances throughout the year – providing community youth the opportunity to gain first hand performing arts experience. A third cultural project that opened two years ago is the Renaissance Theater. The repertory theater continues to host sell-out crowds for a variety of dramas and musicals. A fourth cultural project (under construction) is Riverviews Artspace – a combination of an artist center (galleries and studios), retail space (café and art supply store), and housing (36 loft apartments). The project will be completed summer 2003 and will be the first major market rate housing project in the downtown in over thirty years. It is a critical component of the Master Plan given that downtown residents add twenty-four/seven life to the streets and increase demand for retail and entertainment. A fifth cultural project is the Academy of Music Theater, which is in the midst of an aggressive fund raising campaign to raise the remaining \$4.6 million of a \$9.2 million goal to restore the 1905 opera house. The theater will seat 900 guests and hold a host of cultural programs serving as a regional and state performing arts center.

Private developments include new and expanded restaurants, stores, and offices. In addition, a new boutique hotel is slated to begin construction in spring 2003. It will include forty guestrooms, a conference center, a high-end restaurant, and a microbrewery. Two new loft apartment housing projects are also expected to begin construction in the next year. One project will include thirty units and another will include sixty-seven units plus retail. One of the projects is located adjacent to the City's Community Market, which will further enhance the historic market and add more "critical mass" in specialized retail for downtown (i.e., crafts and antiques).

Government projects include a new home for the City's Department of Human Services housing 165 employees in the heart of downtown. Completion is expected in April 2003. A new Federal Courthouse and post office will be constructed within the next eighteen months and will employ seventy-five to one hundred people. There will be other federal departments housed in the building such as the U.S. Marshall Service, the Federal Bureau of Investigations (FBI), and the Internal Revenue Service (IRS).

Chart of Accounts

The General Ledger Chart of Accounts was revised during FY 2002 to produce a structure of accounts that are compliant with the Commonwealth of Virginia Auditor of Public Accounts Uniform Financial Manual's recommended account structure; provides the account and system structure to facilitate producing the Comprehensive Annual Financial Report (CAFR) from the City's financial system; and provides an account structure which facilitates organization-wide analysis of budget and financial data. In conjunction with the chart of accounts initiative, a portion of the project/grant accounting module of the financial system software was implemented. The Project/Grant Accounting module provides the City with enhanced monitoring and reporting of capital projects and grant expenditures and revenues by project or grant on a life-to-date and fiscal year basis in a subsidiary system. During FY 2002, project/grant accounting was implemented for the Community Development Block Grant program. The Project/Grant Accounting System will be implemented for the City Capital Projects Fund during FY 2003.

Combined Sewer Overflow (CSO)

In August 1994, the Virginia Department of Environmental Quality (DEQ) issued the City's discharge permit and a special consent order which established a compliance schedule and project priorities for implementation of a Combined Sewer Overflow (CSO) Control Plan. The compliance schedule does not contain fixed dates for implementing the CSO control plan, but rather provides for implementation that reflects the City's financial capability. Since July 1, 1993 through June 30, 2001, the City has appropriated over \$89 million for CSO control and abatement projects. This funding has resulted in the closing of 89 of the 132 CSO outfalls with a 77% reduction of CSO volume. During FY 2002, capital expenditures for CSO were approximately \$9.6 million and 10 additional CSO outfalls were eliminated.

In FY 2002, the City received Federal and State grants totaling approximately \$3.5 million that will be used to supplement the existing CSO Program. The City's CSO Control Plan was updated in 2000 and sewer separation continues to be the long-term solution to the City's CSO concerns. The total estimated cost of the CSO Control Plan in 1999 dollars was \$276 million with \$199 million direct CSO abatement costs. In conjunction with the CSO abatement program, projects that are optional include costs of \$25 million for replacement of water system infrastructure and \$52 million of street and road improvements in those areas of the City where CSO projects are being undertaken. The City faces continued challenges in its sewer operations. With the downturn in the economy and consumption reductions by large industrial customers, added financial burdens are placed on the sewer fund. The lost revenue will likely be recovered from increased rates on residential and commercial customers who have experienced significant rate increases over the past eight years to fund the remediation of the CSO problem. Further, with budget problems facing the Commonwealth of Virginia future grants for CSO abatement are not likely which will slow the progress of the CSO abatement program.

Prospects for the Future

The City of Lynchburg is guided by a vision that addresses the challenges of an urban central city and builds on the strengths inherent in both the city and the region. A strategic plan, adopted in 2000, articulates that vision and identifies seven vital priorities for the future:

- Education
- Increasing Real Estate Value
- Fiscal Responsibility
- Economic Development
- Maintaining Excellent Core Services
- Infrastructure
- Downtown Development/Redevelopment

Examples of what success would look like in each of these areas have been identified.

In the area of education, the City will explore opportunities to combine city and school operations in a number of areas including payroll/payables programs, fleet services, building maintenance, human resources, public information, and health care insurance for employees. A major focus is on maintaining and improving the physical capital of the school system. A funding plan has been put into place to conduct a major renovation of and addition to the City's oldest high school, E.C. Glass. Identifying the more than \$25 million in resources needed for this initiative within the overall City Capital Improvements Plan was a challenge successfully met.

City Council has suggested that increased real estate value can be achieved through continued investment in city infrastructure and amenities, programs to reduce substandard and blighted buildings, increased code enforcement efforts, the establishment of clear title for all properties, and the maximization of the City's relationship with the Lynchburg Redevelopment and Housing Authority. In the area of economic development, additional focus will be placed on recognizing the importance of the City's quality education opportunities as a recruitment tool and on marketing the advantages of City residency to newcomers.

Maintaining excellent core services is critical to the success of the City. Doing more with less through productivity improvements resulting from enhanced use of technology tools and improved employee training and development are elements that will assist the City in moving towards its vision, particularly in the area of responsive and effective local government.

Other than downtown, infrastructure issues revolve particularly around the maintenance of city and school buildings as well as streets and bridges.

Perhaps one of the most important prospects for the future of the City is the development and redevelopment of downtown. The City is rich in history and its waterfront on the James River is one of its greatest assets. Reinvestment in downtown has begun as already identified in the Downtown and Riverfront Development/Redevelopment section of this letter.

Continued fiscal responsibility is a key to the City's future. Challenges abound relative to the City's fiscal capacity and allocation of limited resources. Efforts will continue to identify partnerships with the private sector, reduce redundancy of administrative services and to explore best practices in local government management. City Council remains committed to its self-imposed financial policies. Through the "First Virginia Cities" coalition, the staff will continue to work with the State legislature in identifying resources and responsibilities that can assist the City in addressing its fiscal challenges.

While the challenges are many for the City of Lynchburg, so are the opportunities for success. The City of Lynchburg continues to take the steps necessary to position itself to become the progressive community as visualized in the strategic plan. The work being done in the organization and in the community has provided an exciting and rewarding study on the power of vision and strategic planning in achieving results. Lynchburg will continue to evolve to meet the needs of its citizens.

Accounting System and Budgetary Controls

The City's accounting records for governmental fund type operations are maintained on a modified accrual basis with revenues being recorded when available and measurable, and expenditures being recorded when services or goods are received and the liabilities are incurred. Accounting records for the City's proprietary fund types are maintained on the accrual basis.

In developing and altering the City's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: (a) the safeguarding of assets against loss from unauthorized use or disposition, and (b) the reliability of financial records for preparing financial statements and maintaining accountability for assets.

The concept of reasonable assurance recognizes that: (a) the cost of a control should not exceed the benefits likely to be derived, and (b) the evaluation of costs and benefits requires estimates and judgements by management. All internal control evaluations occur within the above framework. The City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

City Council approved financial policies to guide the decision-making and ensuring continued strong financial health. In the summer and fall of 1999 debt management, fund balance, and contributions to non-profit organizations policies were adopted. In the fall 2000, a budget policy was prepared and adopted by City Council. In September 2001, City Council adopted an investment policy. The basic objective of the investment policy is to ensure all of the City's funds, regardless of term, within the parameters that include legality, safety, liquidity, and yield.

Financial policies for risk management, and grants are being developed for future consideration by City Council.

Risk Management

The City's Self-Insurance Plan and Risk Management Program combine self-insurance and third-party insurance coverage. The City is self-insured for workers compensation, general liability, and automobile liability claims. The City also provides healthcare coverage through a professionally administered self-insurance program. The City has extended coverage for environmental issues and for the Lynchburg Regional Airport. Footnote 16 to the financial statements provides an outline of the City's Risk Management Program and related coverage.

Cash Management

The City uses a pooled cash concept to allow greater investment flexibility and consequently a better return on investments. Cash from all funds and the Lynchburg City Schools, except for cash managed by fiscal agents, is pooled for investment purposes with maturities planned to coincide with cash needs. Cash temporarily idle during the year is invested in accordance with the Council-adopted investment policy. In September 2001, the City contracted with a private investment firm to assist in evaluating various investment alternatives to increase investment income.

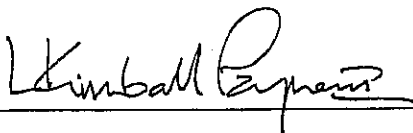
Independent Audit

State law and *City Code* require that the financial statements of the City be audited by an independent certified public accountant selected by City Council. Cherry, Bekaert and Holland, L.L.P has performed an annual audit of the Comprehensive Annual Financial Report. The independent auditor's report, which includes their opinion on the financial statements of the various funds and account groups of the City, is contained in the Financial Section of this report. Cherry, Bekaert and Holland, L.L.P also audited the component unit financial statements of Greater Lynchburg Transit Company, Business Development Centre, Inc., and Lynchburg City Schools.

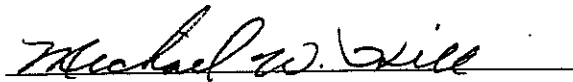
Acknowledgments

The preparation of the Comprehensive Annual Financial Report was made possible by the dedicated service of the staff of the Financial Services Department and the Office of Internal Audit. Each member of these departments has our appreciation for the contributions made by them in the preparation of this report. Appreciation is expressed also to City Council for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,



L. Kimball Payne, III
City Manager



Michael W. Hill
Director of Financial Services

CITY OF LYNCHBURG, VIRGINIA
COUNCIL-MANAGER FORM OF GOVERNMENT

DIRECTORY OF PRINCIPAL OFFICIALS

June 30, 2002

CITY COUNCIL

Carl B. Hutcherson, Jr., Mayor

Bert Dodson, Jr., Vice Mayor
Robert E. Garber
Julian R. Adams

Edward M. Barksdale, Sr.
Joseph M. Seiffert
Joan Foster

SCHOOL BOARD

Lyle E. Schweitzer, Chairman

Harry Smith, Jr., Vice Chairman
Dr. Wayne A. Brindle
Julie P. Doyle
Ellis M. Frankfort

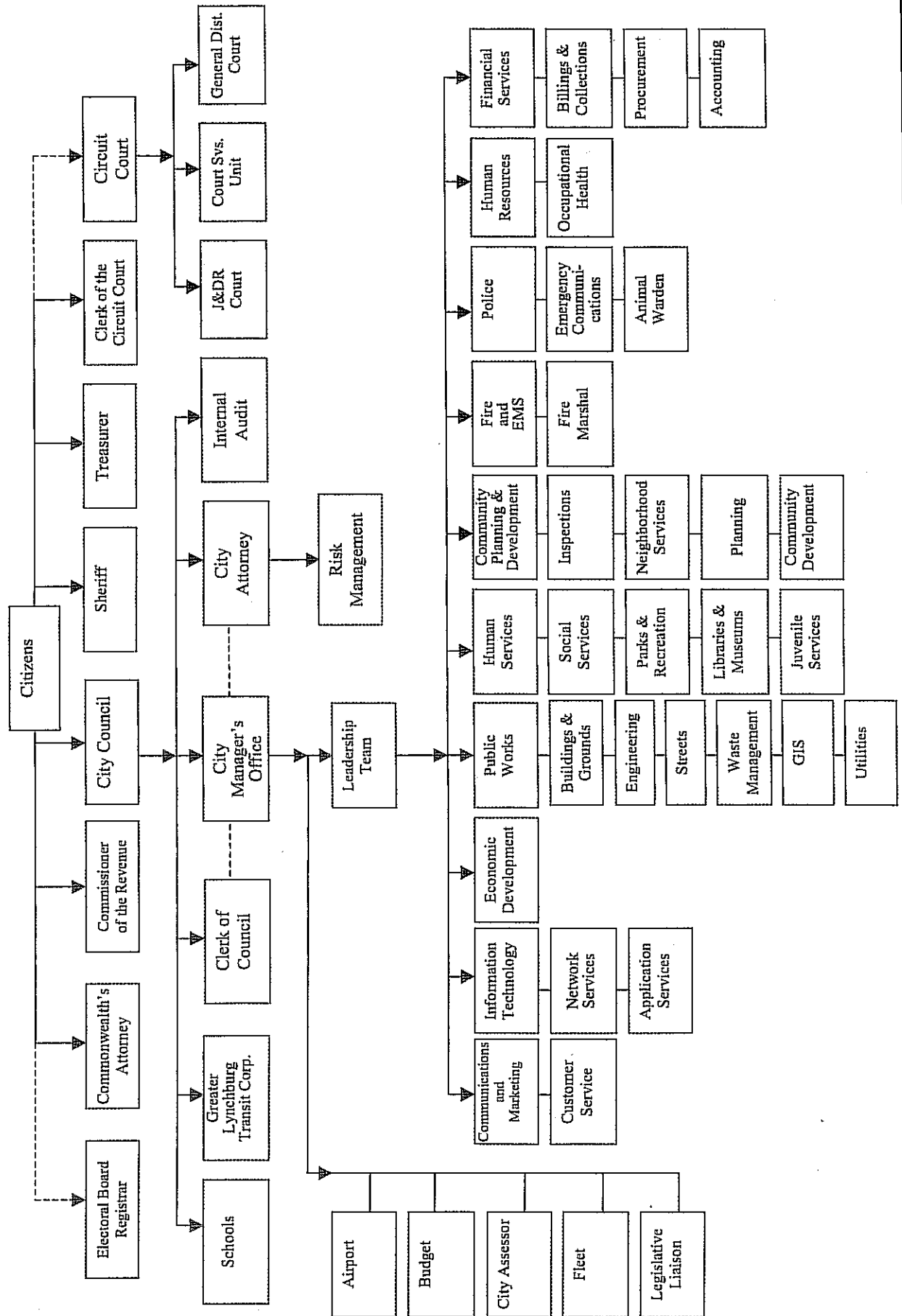
Jean Smith-Turner
Sterling A. Wilder
James T. Ballengee
Charles C. Hooks, Jr.

OFFICIALS

L. Kimball Payne, III
Bonnie Svrcek
Walter C. Erwin
Michael Hill
David C. Thurman
Mitchell W. Nuckles
Dr. James T. McCormick

City Manager
Deputy City Manager
City Attorney
Director of Finance
Treasurer
Commissioner of the Revenue
Superintendent of Schools

Organizational Structure



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Lynchburg,
Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2001

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Timothy A. Grawe
President

Jeffrey L. Essler
Executive Director

FINANCIAL SECTION



Independent Auditors' Report

To the Members of the City Council and City Manager
City of Lynchburg, Virginia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lynchburg, Virginia, as of and for the year ended June 30, 2002, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Lynchburg's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Specifications for Audit of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lynchburg, Virginia as of June 30, 2002, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, the City adopted Governmental Accounting Standards Board (GASB) Statement Number 34 during the year ended June 30, 2002.

Management's Discussion and Analysis and the Schedule of Funding Progress for a Defined Benefit Plan are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion thereon.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2002 on our consideration of the City of Lynchburg, Virginia's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming opinions on the basic financial statements taken as a whole. The combining and individual fund statements and schedules, as well as the accompanying schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

We did not audit the data included in the introductory or statistical section of this report and, accordingly, we express no opinion on such data.

Cherry, Bekeert & Halland, L.L.P.

Lynchburg, Virginia
November 27, 2002

CITY OF LYNCHBURG

Management's Discussion and Analysis

The Management Discussion and Analysis (MD&A) offers the readers of the City of Lynchburg's financial statements a narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2002. The information presented here should be considered in conjunction with additional information provided in the letter of transmittal.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at June 30, 2002 by \$275.4 million (net assets). Of this amount, \$35.3 million is unrestricted and may be used to meet the City's future obligations. Of the \$35.3 million unrestricted assets, \$20.9 million is related to governmental activities, which includes the General Fund. Of the \$20.9 million unrestricted assets, \$18.0 million is undesignated and available for future General Fund expenditures. The \$14.4 million remaining balance of unrestricted assets is related to Business-type activities, which include the City's enterprise funds (Water, Sewer, Airport, Solid Waste Management Operation).
- The unreserved, undesignated fund balance for the General Fund represented 15.6 percent of total General Fund revenues compared to the Council-adopted target of 10 percent.
- In comparison with the prior fiscal year, the City's total net assets increased \$7.0 million from \$268.4 million. Net assets of governmental activities decreased \$1.0 million from \$154.9 million and net assets of business-type activities increased \$8.0 million from \$113.5 million.
- During FY 2002, the City's total debt increased by \$8.8 million from \$194.7 million to \$203.5 million. New debt in the amount of \$27.0 million was issued while \$18.2 million was retired.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Management Discussion and Analysis serves as an introduction to the City's basic financial statements which are the government-wide financial statements, fund financial statements, and notes to the financial statements. Required supplementary information is also included in this report.

For the past 20 years, the primary focus of local government financial statements has been summarized fund type information on a current financial resource basis to provide short-term information about the City's overall financial status. This approach has been modified with issuance of the Governmental Accounting Standards Board (GASB) Statement 34. The City's financial statements now present two kinds of statements, each with a different snapshot of the City's finances. The new focus is on both the City as a whole (government-wide) and the fund financial statements (General, Water, Sewer, Airport, and Solid Waste Management Funds). The government-wide statements, which are new, provide both short-term and long-term information about the City's overall financial status. The fund financial statements, which have been provided in the past, focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements. Both perspectives (government-wide and fund) allow the reader to address relevant questions, broaden the basis of comparison (year to year or government to government) and enhance the City's accountability.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements, similar to those used by private-sector companies, report information about the City as a whole. One of the most important questions asked about the City's finances is "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities, which are the government-wide statements, report information about City finances as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These statements combine and consolidate short-term, spendable resources with capital assets and long-term obligations.

The Statement of Net Assets and the Statement of Activities report the City's net assets and changes in assets. One can think of the City's net assets – the difference between assets and liabilities – as one way to measure the City's financial health, or financial position. Over time, increases or decreases in net assets help determine whether the City's financial position is improving or deteriorating.

In the Statement of Net Assets and the Statement of Activities, the City is divided into the following:

Governmental activities – Most of the City's basic services are reported here: general government, police, fire, public works, health and human services, parks and recreation, community development. Primarily, property taxes, other taxes and intergovernmental revenue finance most of these activities.

Business-type activities - The financial activity of the water, sewer, airport and solid waste activities are reported here. The City charges a fee to customers to help cover all or most of the cost of services provided by these activities.

Component units – The City also includes three separate legal entities in its report – the City of Lynchburg School Board, the Greater Lynchburg Transit Company, and the Business Development Centre Inc. While these represent legally separate entities, their operational or financial relationship with the City makes the City financially accountable.

The Government-Wide financial statements can be found on pages 4-5 of this report.

FUND FINANCIAL STATEMENTS

Traditional readers of government financial statements will find the fund financial statement presentation more familiar. The focus is now on the City's most significant funds. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate fiscal accountability. The City uses governmental, proprietary, and fiduciary fund financial statements to provide more detailed information about the City's most significant funds rather than the City as a whole.

The City has three kinds of funds:

Governmental Funds

Governmental funds are used to report most of the City's basic services. The funds focus on (1) cash and other financial resources that can be readily converted to cash flow in and out and (2) balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a near or short-term view of the City's finances that helps the reader determine whether there are more or less financial resources that can be spent in the near future to finance City programs. Because this information

does not encompass the additional long-term focus of the government-wide statements, additional information is provided at the bottom of the governmental funds statement that explains the relationship (or differences) between them.

The basic Governmental Funds financial statements can be found on pages 6-10 of this report.

Proprietary Funds

Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Proprietary funds are classified as either enterprise or internal service funds. An enterprise fund may be used to report any activity for which a fee is charged to external users for goods or services. Internal service funds are used to account for goods and services provided on a cost reimbursement basis from activities within the government. The City maintains five proprietary funds. The City uses enterprise funds to account for its airport, water, sewer, and solid waste operations. The City uses an internal service fund to account for its fleet services. Because fleet services predominantly benefit governmental rather than business-type functions, the internal service fund is included within governmental activities in the government-wide financial statements.

The basic Proprietary Funds financial statements can be found on pages 11-13 of this report.

Fiduciary Funds

Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for others. Activities from fiduciary funds are not included in the government-wide financial statements because the City cannot use these assets for its operations. The accounting for fiduciary funds is much like that used in proprietary funds in that the City cannot use these assets for its operations.

The basic Fiduciary Fund financial statement can be found on page 14 of this report.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on pages 15-43 of this report.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees.

Required supplementary information can be found on page 44 of this report.

The Combining Statements for Non-major Governmental Funds and Special Revenue Funds can be found on pages 45-52 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets The following table reflects condensed information on the City's net assets:

Summary of Statement of Net Assets as of June 30, 2002 (in millions)

	Governmental Activities	Business-Type Activities	Total Primary Government	Component Unit School Board	Component Unit Transit
Current and other assets	\$36.7	\$29.2	\$65.9	\$15.5	\$0.4
Capital Assets	211.6	218.0	429.6	9.4	5.9
Total Assets	248.3	247.2	495.5	24.9	6.3
Long-term debt outstanding	88.4	123.0	211.4	2.6	-
Other liabilities	6.0	2.7	8.7	9.4	0.3
Total liabilities	94.4	125.7	220.1	12.0	0.3
Net Assets					
Invested in capital assets, net of related debt	127.8	106.0	233.8	6.7	5.9
Restricted	5.2	1.1	6.3	1.9	-
Unrestricted	20.9	14.4	35.3	4.3	0.1
Total net assets	\$153.9	\$121.5	\$275.4	\$12.9	\$6.0

The City's combined net assets increased from \$268.4 million at June 30, 2001 to \$275.4 million at June 30, 2002 primarily due to an increase in capital assets in business-type activities. The majority (83 percent) of the City's net assets of governmental activities is invested in capital assets (streets, drainage, construction in progress, buildings, equipment, etc.). The capital assets are net of the outstanding principal of the debt associated with their acquisition. These assets are not available for future expenditures since they will not be sold. The City has a strong financial position with 13 percent of net assets unrestricted and available for providing services to the citizens of the City. The component unit School Board net assets increased by \$7.6 million primarily as a result of a net \$6.2 million capital contribution from bond proceeds received by the City and allocated to the School Board.

The net assets of the City's business-type activities are \$121.5 million, an increase of \$8.0 million. The increase is a result of investment in capital assets of the Sewer Fund. As with the governmental activities, the majority (87 percent) of the net assets is invested in capital assets. The City uses these assets to provide services to the citizens. The unrestricted net assets of the business-type activities were \$14.4 million at June 30, 2002.

Statement of Activities The City's total revenues and expenses for governmental and business-type activities are reflected in the following chart:

Statement of Activities Changes in Net Assets For the Fiscal Year Ended June 30, 2002 (in millions)					
	Governmental Activities	Business-type Activities	Total Primary Government	Component Unit School Board	Component Unit Transit
Revenues:					
Program Revenues:					
Charges for services	\$9.8	\$27.0	\$36.8	\$1.7	\$0.9
Operating grants & contributions	26.7	0.5	27.2	41.6	1.6
Capital grants and contributions	3.0	7.6	10.6	0.2	3.6
General Revenues:					
Property Taxes	44.7	-	44.7	-	-
Other Taxes	37.4	-	37.4	-	-
Unrestricted intergovernmental	8.6	-	8.6	-	-
Interest	1.0	0.9	1.9	-	-
Miscellaneous	3.1	0.1	3.2	0.4	-
Transfers	1.3	-	1.3	-	-
City appropriation	-	-	-	39.1	0.6
Total Revenues	135.6	36.1	171.7	83.0	6.7
Expenses:					
General Government	13.4	-	13.4	-	-
Education	39.8	-	39.8	75.4	-
Judicial	3.5	-	3.5	-	-
Health and human services	19.1	-	19.1	-	-
Public Safety	28.9	-	28.9	-	-
Public Works	17.9	-	17.9	-	-
Community Development	6.4	-	6.4	-	-
Cultural and recreational	2.1	-	2.1	-	-
Non-departmental	3.3	-	3.3	-	-
Debt service-other	2.3	-	2.3	-	-
Transfers	-	1.3	1.3	-	-
Transit	-	-	-	-	4.0
Water	-	8.1	8.1	-	-
Sewer	-	10.7	10.7	-	-
Airport	-	3.2	3.2	-	-
Solid Waste Management	-	4.8	4.8	-	-
Total Expenses	136.7	28.1	164.8	75.4	4.0
Change in net assets	(1.0)	8.0	7.0	7.6	2.7
Net Assets Beginning of Year	154.9	113.5	268.4	5.3	3.2
Net Assets End of Year	\$153.9	\$121.5	\$275.4	\$12.9	\$5.9

Governmental Activities

Revenues

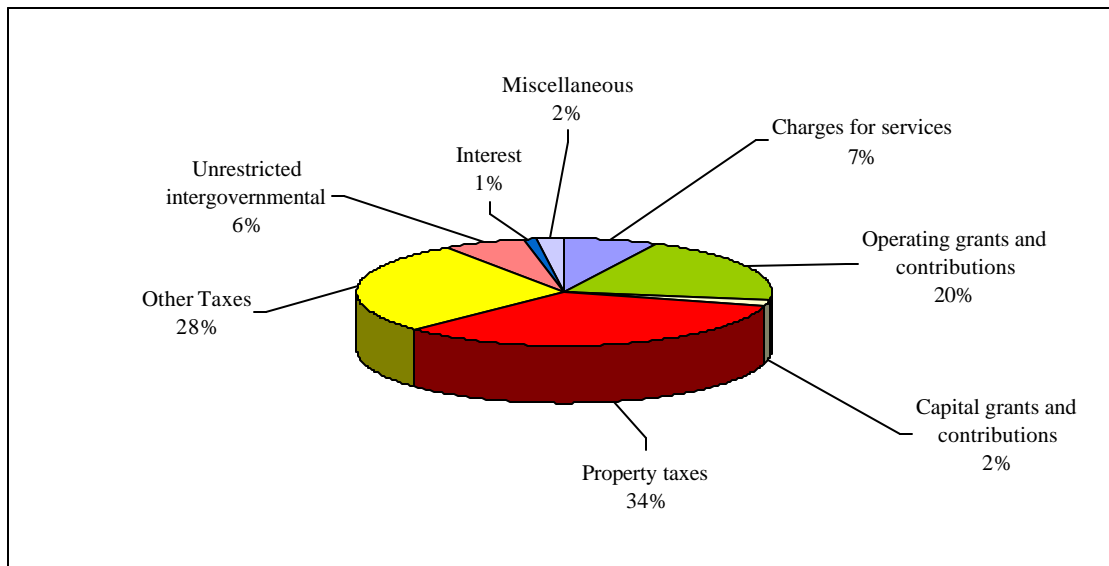
For FY 2002, revenues from governmental activities totaled \$135.6 million. General Revenues, specifically Property Taxes and Other Local Taxes, are the largest components of revenues (62 percent). Real Estate Tax revenues, the City's largest single source of revenue, were \$29.8 million. The City received a total of \$14.7 million from Personal Property Taxes, which is comprised of taxes on individual automobiles, business personal property, and machinery and tools, the second largest revenue source. Of the \$14.7 million, the City received reimbursement from the Commonwealth of Virginia of \$5.4 million for taxes on individual automobiles. Under the provisions of the Personal Property Tax Relief Act of 1998 (PPTRA), the State's share is based on 70 percent of the individual taxpayers automobile levy.

Other Local Taxes includes revenue from Local Sales, Consumer Utilities, Business Licenses, and Meals taxes. Local Sales Tax revenues were \$11.9 million for FY 2002. In spite of the economic downturn, Sales Tax and Meals Taxes increased slightly during the current year. In contrast, Business License and

Consumer Utility Tax revenues declined. The combination of these revenue sources resulted in a slight overall increase in revenue from Other Local Taxes for FY 2002.

During FY 2002, the City received \$35.3 million in operating grants, contributions and unrestricted intergovernmental revenue from the Commonwealth of Virginia. Of the amount received, \$8.6 million (6 percent) was unrestricted revenue. The major components of the unrestricted intergovernmental revenue were \$5.4 million for the City's PPTRA reimbursement and \$2.4 million in HB 599 funds from the Commonwealth of Virginia.

Revenue by Source-Governmental Activities



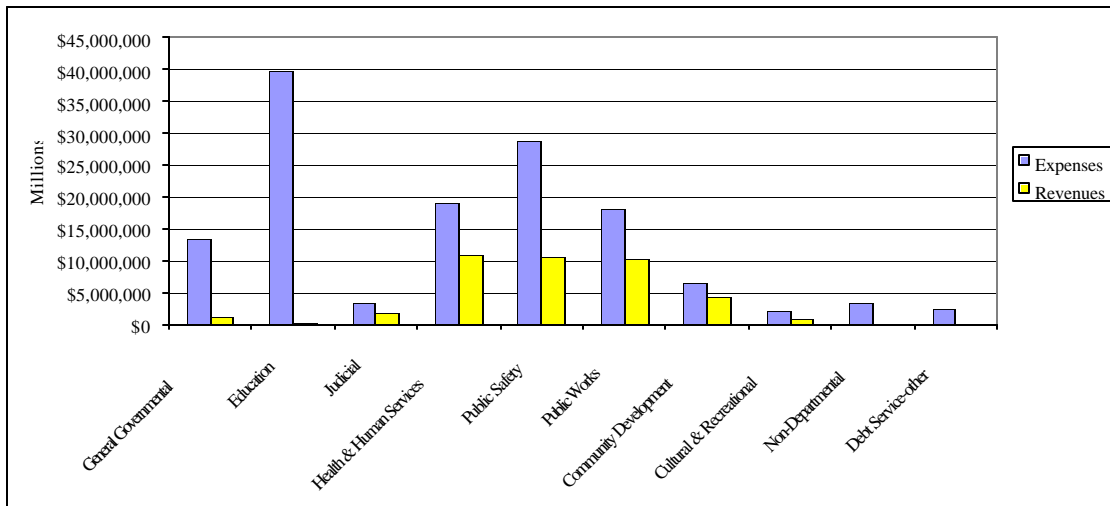
Expenses

For FY 2002, expenses for governmental activities totaled \$136.7 million, which included budgeted increases for employee compensation and payments for education to the Lynchburg City School Board (Schools). As a result of the GASB 34 financial reporting requirements, depreciation expense replaces retirement of principal on long-term debt and is allocated to governmental activities.

The City's five largest funded programs are local support for education, public safety, health and human services, parks and recreation, and public works. Education continues to be one of the City's highest priorities and commitments. The City's operating subsidy to the Schools totaled \$31.2 million. In addition, the City contributed \$9.6 million to the Schools for capital project expenses.

For governmental activities, the Statement of Activities on page 5 shows that \$9.8 million was financed by those receiving services, \$26.7 million from operating grants and contributions, \$3.0 from capital grants and contributions, with the City's general revenues financing \$96.1 million of the remaining program expenses. The graph below shows the program expenses and program revenues generated by governmental activities.

Program Expenses and Program Revenues - Governmental Activities



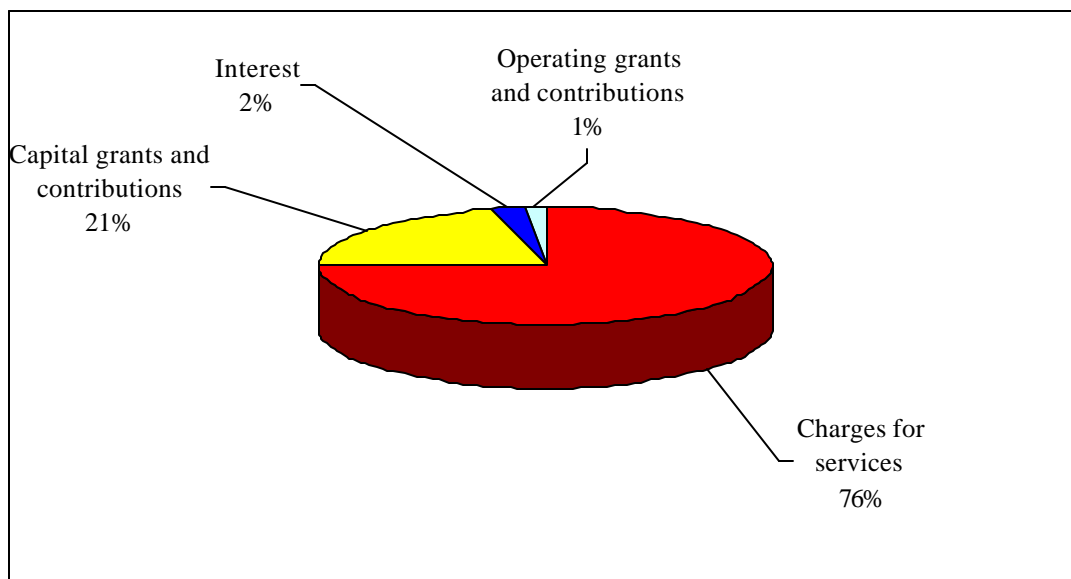
Business-type Activities

The City's business-type activities are comprised of enterprise funds for water, sewer, airport, and solid waste management operations. Net assets of these business-type activities increased by \$8.0 million. Of the \$8.0 million increase, \$6.4 million was due primarily to capital construction related to the correction of Combined Sewer Overflow (CSO) and \$1.2 million of capital costs at the Lynchburg Regional Airport. At June 30, 2002, total net assets for business-type activities was \$121.5 million of which \$14.4 million was unrestricted and available to provide funding for future operations.

Revenues:

Revenues for all business-type activities totaled \$36.1 million of which 75 percent is from charges for services and 21 percent from capital grants and contributions, the majority of which was for CSO correction activities.

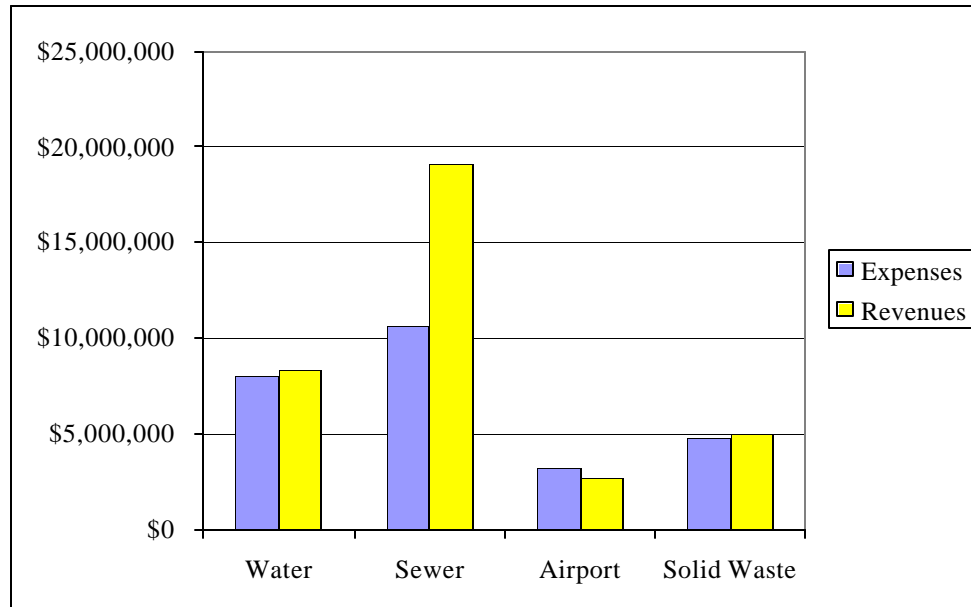
Revenues by Source - Business-type Activities



Expenses:

Expenses and transfers totaled \$28.1 million.

Expenses and Program Revenues - Business-type Activities



The City's Proprietary Funds provide the same type of information found in the government-wide financial statements for business-type activities but in more detail. Please refer to Financial Analysis of the Fund Financial Statements-Proprietary Funds section of the MD&A for a more detailed analysis of the major funds that make up business-type activities.

Component Unit - School Board

The net assets of the School Board increased \$7.6 million, primarily related to \$6.2 million of construction costs financed by the City through the issuance of long-term debt.

Component Unit – Greater Lynchburg Transit Company

The net assets of the Greater Lynchburg Transit Company increased \$2.7 million, primarily related to capital costs financed by Federal and State grants.

FUND FINANCIAL ANALYSIS

Governmental Funds

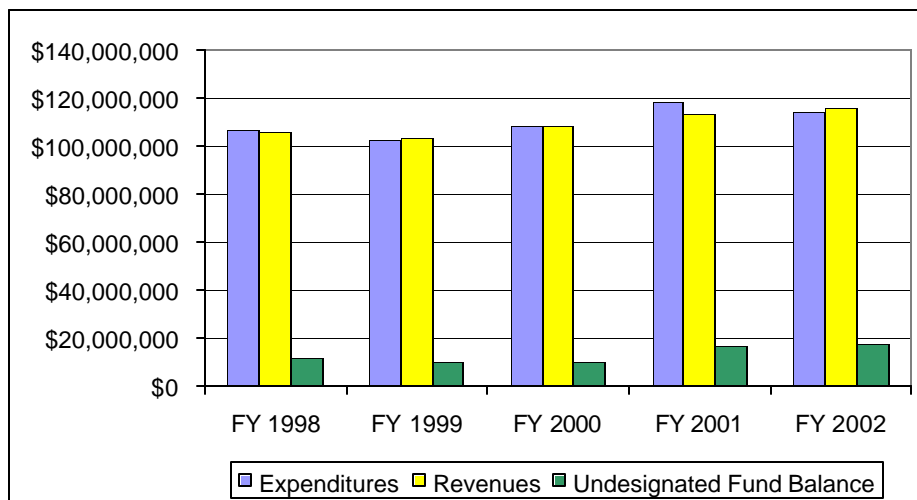
Governmental Funds include the General Fund and Other Governmental Funds, which is comprised of the Special Revenue Funds and Capital Projects Fund. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, the unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

- At the end of FY 2002, the City's governmental funds reported a combined fund balance of \$25.1 million.
- Of the combined fund balance, \$18.6 million constitutes unreserved fund balance, \$18.0 million for the General Fund and \$0.6 million for Other Governmental Funds, which is available for spending at the government's discretion.
- The \$0.6 million unreserved balance for Other Governmental Funds was comprised of the balances in the Special Revenue Funds, the details of which can be found on pages 49-50 of this report.
- Of the combined fund balance, \$6.4 million is designated to indicate that it has already been committed. The balance is comprised of \$5.6 million in specific designations, the details of which can be found in Footnote 10 to this report, and \$0.8 million for outstanding encumbrances at FY 2002 year-end.

General Fund

The General Fund is the chief operating fund of the City. At the end of FY 2002, the undesignated fund balance was \$18.0 million. The undesignated fund balance represents 15.6 percent of total General Fund revenues, which compares very favorably to Council's adopted financial policy target of 10 percent. The following graph presents General Fund summary financial information for the past five years.

Five Year General Fund Financial Summary



FY 2002 General Fund Budgetary Highlights

	FY 2002 (in millions)			
	Original Budget	Amended Budget	Actual	Amended vs. Actual
<u>Revenues</u>				
Taxes	\$84.3	\$84.2	\$79.9	(\$4.3)
Intergovernmental	20.7	21.3	26.5	5.2
Other	9.3	8.3	9.1	0.8
Total	114.3	113.8	115.5	1.7
<u>Expenditures and Transfers</u>				
Expenditures	78.9	80.3	78.6	1.7
Transfers	35.1	36.8	35.5	1.3
Total	114.0	117.1	114.1	3.0
Change in Fund Balance	\$0.3	(\$3.3)	\$1.4	\$4.7

Actual revenues and other financing sources exceeded expenditures and other financing uses by \$1.4 million in the General Fund.

Actual revenues exceeded the amended budget by \$1.7 million. The City received \$5.4 million from the Commonwealth of Virginia Personal Property Tax Relief Assistance Program for reimbursement of approximately 70 percent of automobile personal property taxes paid by individuals. As noted by the above budget summary, actual revenue from taxes was \$4.3 million less than the amended budget and \$5.2 million more for intergovernmental sources. In the FY 2002 budget, the estimated amount to be received from this source of revenue was categorized as taxes rather than intergovernmental revenue. The \$1.7 million revenue increase over the amended budget is attributable primarily to higher than anticipated:

- Local sales taxes of \$1.0 million
- Bank stock and lodging taxes of \$0.2 million
- Building inspection fees and miscellaneous revenue of \$0.2 million

Expenditures and transfers were \$3.0 million less than the FY 2002 amended budget. These expenditure savings were attributable primarily to unexpended appropriations for:

- \$0.2 million for debt service
- \$0.3 million for information technology
- \$0.6 million reduced transfers primarily related to Schools debt savings
- \$0.6 million related to health and human services
- \$0.9 million for public works expenses.

Each year City Council appropriates funds for a contingency reserve. For FY 2002, \$0.9 million was appropriated. Maintaining strong discipline, City Council appropriated \$0.5 million from the contingency reserve primarily for public safety, health and human services, transportation and technology needs. The remaining \$0.4 million was returned to fund balance as unexpended funds for FY 2002.

During FY 2002, City Council approved budget amendments of \$3.1 million to the original budget of \$114 million, resulting in an amended budget of \$117.1 for the following purposes:

- Appropriated \$0.5 million related to encumbrances established prior to the end of FY 2001.
- Appropriated \$0.4 million for economic development initiatives and \$0.1 million for health and human services grants.
- Appropriated \$0.9 million from FY 2001 unexpended appropriations for technology initiatives and completion of the Comprehensive Plan.
- During each fiscal year, management reviews current year expenditures and revenue collection patterns and presents to City Council a third quarter budget amendment. For FY 2002, \$1.2 million was appropriated for third quarter adjustments and was comprised of the following:
 - \$0.2 million for increased Airport security resulting from the events of September 11, 2001 with reimbursement expected in the ensuing fiscal year
 - \$0.5 million to assist in the relocation of the Lynchburg Redevelopment and Housing Authority to provide space for construction of a new downtown post office and Federal court building
 - \$0.3 million for the Riverviews Downtown Redevelopment Project
 - \$0.2 million for increased health care claims

Proprietary Funds

The City's proprietary funds are comprised of water, sewer, airport, solid waste management, and fleet services. The City accounts for the water, sewer, airport, and solid waste management as enterprise funds and fleet services as an internal service fund. In the budgetary management of the enterprise funds, the City has chosen to budget for principal retirement on long-term debt rather than depreciation. Further, the City uses two key financial indicators to ensure the financial stability of its enterprise funds: debt coverage and fund balance ratios. Debt coverage is defined as the number of times debt service for the related fund is covered by net income adjusted for depreciation.

Water Fund

The Water Fund ended FY 2002 with unrestricted assets of \$5.8 million, which was available to fund future expenses. After adjusting expenses for principal retirement on long-term debt and depreciation, the unrestricted net assets are 76 percent of adjusted expenses, which compares very favorably to Council's financial policy target of 40 percent. Additionally, the debt coverage ratio was 1.32, which compares very favorably to Council's-adopted financial policy target of 1.2.

Sewer Fund

The Sewer Fund ended FY 2002 with unrestricted assets of \$4.0 million, which was available to fund future expenses. The Council-adopted financial policies for the sewer fund reflect the requirements of the Special Order for Combined Sewer Overflow (CSO) control, as described in Footnote 18 to this report. After adjusting expenses for principal retirement on long-term debt and depreciation, the unrestricted assets were 25 percent of FY 2003 budgeted expenditures. Additionally, the debt coverage ratio was 1.2, which is consistent with Council's adopted financial policy target of 1.2.

Airport Fund

The Airport Fund ended FY 2002 with a deficit in unrestricted net assets of \$.2 million. Because of the subsidy provided from the general fund, the Council-adopted financial policies are not applicable to this fund.

Solid Waste Management Fund

The Solid Waste Management Operations Fund ended FY 2002 with unrestricted assets of \$4.9 million, of which \$2.4 million was designated for landfill closure with the balance of \$2.5 million available to fund future expenses. After adjusting expenses for principal retirement on long-term debt and depreciation, the unrestricted net assets were 52 per cent of adjusted expenses, which compared very favorably to Council's adopted financial policy target of 40 percent. Additionally, the debt coverage ratio was 1.35, which compares very favorably to the Council-adopted financial policy target of 1.2.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The primary government investment in capital assets as of June 30, 2002 for its governmental and business-type activities was \$429.6 million, net of depreciation, as reflected in the schedule below. Included in the governmental activities is \$30.3 million for School Board buildings and improvements owned by the primary government. The School Board had additional assets not owned by the primary government of \$9.3 million. The Transit Company had \$5.9 million in capital assets.

Capital Assets June 30, 2002 (net of depreciation in millions)

	Governmental Activities	Business-type Activities	Total Primary Government	Component Unit School Board	Component Unit Transit
Land and improvements	\$6.3	\$10.4	\$16.7	1.0	0.1
Buildings and improvements	52.0	21.7	73.7	2.1	0.3
Infrastructure	111.4	139.9	251.3	0.4	0.1
Machinery and equipment	8.9	4.6	13.5	5.8	5.2
Construction in Progress	33.0	41.4	74.4	-	0.2
Total	\$211.6	\$218.0	\$429.6	\$9.3	\$5.9

The City added \$53.8 million, in net assets for FY 2002. Major additions to capital assets during the current fiscal year included the following (in millions):

Combined Sewer Overflow (CSO) replacement projects, financed by Virginia Revolving Loans Fund (VRLF), State and Federal CSO grants, general obligation bonds	\$10.4
Campbell Avenue bridge replacement, financed by Virginia Department of Transportation (VDOT) grants	2.1
Sheffield Elementary School Renovations, financed by a Virginia Public School Authority loan.	4.0
Construction in progress	<u>35.9</u>
	\$52.4

Construction in progress included the Wastewater Treatment Plant Odor Control project, additional CSO abatement projects, renovation of Linkhorne Middle School, renovation of the baseball stadium, a variety of street, bridge, water, sewer, recreation projects, and construction of the Enterprise Drive extension in the Wyndhurst development.

Detailed information on the City's capital assets can be found in Footnote 7 to this report.

Long-term Debt

At the end of FY 2002, the City's total outstanding debt was \$203.5 million, with \$119.6 million of business-type activities debt supported by the individual funds, resulting in net bonded debt of governmental activities of \$83.9 million. Capital leases are included in outstanding debt while liabilities for vacation pay, workers compensation, and landfill closure liability were excluded.

City of Lynchburg's Outstanding Debt
General Obligation and Revenue Bonds
June 30, 2002
(in millions)

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
General Obligation Bonds	\$71.9	\$63.5	\$135.4
Revenue Bonds	-	56.1	56.1
Lease Revenue Bonds	2.4	-	2.4
Literary Loans	0.3	-	0.3
Bond Anticipation Notes	<u>9.3</u>	<u>-</u>	<u>9.3</u>
Total	<u><u>\$83.9</u></u>	<u><u>\$119.6</u></u>	<u><u>\$203.5</u></u>

During FY 2002, the City retired \$18.2 million of outstanding principal and issued \$27.0 million of new long-term debt. Included in the new debt was a \$7.5 million Bond Anticipation Note for the renovation of Linkhorne Middle School and \$13.9 million in self-supporting debt for enterprise funds with the balance, \$5.6 million, for various governmental public improvements.

The City's general obligation bonds continue to maintain a Aa3 rating from Moody's Investors Service, a AA rating from Standard and Poor's Rating Service and a AA rating from Fitch Investors. A City Council-adopted policy provides that tax-supported debt should not exceed 5 percent of net assessed valuation of taxable property in the City. As of the end of FY 2002, outstanding tax-supported debt was 2.35 percent of net assessed valuation.

Detailed information on the City's long-term debt can be found in Footnote 8 to this report.

ECONOMIC FACTORS

The City's unemployment rate for June 2002 was 6.2 percent, which was 2.1 percent more than the same period in FY 2001. This compares to the State's unemployment rate of 4.3 percent and the national average rate of 5.9 percent for June 2002.

The City is a regional commercial center that has seen recent growth in the retail sector due to the opening of several big box retailers and national restaurant chains. While the events of September 11, 2001 impacted the U.S. economy, through FY 2002, the City's sales tax revenue finished the fiscal year about \$1.0 million more than the FY 2002 budget.

The City has experienced growth with the expansion of existing industries. These expansions are partly the result of the City's economic development initiatives, which given the loss of some major employers, are focused on encouraging firms already located in the City to remain and expand their facilities. Economic development initiatives include the development of two publicly owned industrial parks, the creation of a small-business assistance center with loans and low-cost office space, and the use of various targeted incentives including subsidized land and infrastructure and cash grants.

A number of redevelopment efforts were underway in the downtown business district including the renovation of two existing historical structures, one to provide office space for the City's Department of Human Services and one to provide residential condominiums, art space and retail operations for individuals with a portion dedicated for commercial use.

For FY 2003, the adopted General Fund Budget included a 2 percent compensation adjustment for employees of the City and the Lynchburg School Board and maintained the current tax rates. Water and Sewer rates were increased 7 percent with most of the increase directed toward continuation of the CSO correction program.

Although the City's Water, Sewer and Solid Waste Funds achieved or exceeded Council's financial policy targets, the Sewer Fund continued to be financially challenged to meet these targets. Although the financial policies require rate reviews at a minimum of every two years, water and sewer rates are reviewed annually with necessary changes implemented at the beginning of each fiscal year.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Financial Services, City of Lynchburg, P.O Box 60, Lynchburg, VA. 24505 or via e-mail at mike.hill@lynchburgva.gov.

Basic Financial Statements

CITY OF LYNCHBURG, VIRGINIA

Statement of Net Assets

June 30, 2002

	Governmental Activities	Business Type Activities	Total Primary Government	Component Units		Total Reporting Unit
				Schools	Other	
Assets						
Cash and cash equivalents	\$ 22,186,384	\$ 13,105,588	\$ 35,291,972	\$ 10,972,071	\$ 493,192	\$ 46,757,235
Cash - designated for landfill closure	-	2,400,150	2,400,150	-	-	2,400,150
Receivables (net of allowance for uncollectibles)	7,745,205	3,839,836	11,585,041	1,535,601	825,451	13,946,093
Internal balances	990,629	(990,629)	-	-	-	-
Due from component unit	287,387	-	287,387	-	-	287,387
Deferred charges	-	664,921	664,921	-	-	664,921
Prepays and other assets	233,126	417,490	650,616	1,137,750	142,811	1,931,177
Restricted assets:						
Cash and cash equivalents	82,782	2,614,471	2,697,253	1,880,605	-	4,577,858
Intergovernmental receivable	5,129,829	7,104,446	12,234,275	-	-	12,234,275
Capital assets:						
Land and improvements	6,316,171	10,413,036	16,729,207	1,032,624	63,152	17,824,983
Buildings and improvements	51,993,803	21,678,974	73,672,777	2,136,124	327,228	76,136,129
Machinery and equipment	8,904,555	4,608,072	13,512,627	5,766,285	5,216,266	24,495,178
Construction in progress	32,989,143	41,455,412	74,444,555	-	160,917	74,605,472
Infrastructure	111,434,360	139,891,125	251,325,485	422,319	103,774	251,851,578
Total assets	248,293,374	247,202,892	495,496,266	24,883,379	7,332,791	527,712,436
Liabilities						
Accounts payable and other current liabilities	5,935,589	2,685,753	8,621,342	9,303,782	886,199	18,811,323
Interest payable	690,977	685,868	1,376,845	-	-	1,376,845
Due to primary government	-	-	-	-	287,387	287,387
Liabilities payable from restricted assets	53,720	-	53,720	-	-	53,720
Unearned revenue	-	-	-	116,500	-	116,500
Noncurrent liabilities:						
Due within one year	7,126,025	7,896,012	15,022,037	774,026	-	15,796,063
Due in more than one year	80,558,156	114,422,136	194,980,292	1,809,357	-	196,789,649
Total liabilities	94,364,467	125,689,769	220,054,236	12,003,665	1,173,586	233,231,487
Net assets						
Invested in capital assets, net of related debt	127,767,609	106,057,802	233,825,411	6,733,969	5,871,337	246,430,717
Restricted	5,212,611	1,055,706	6,268,317	1,880,605	-	8,148,922
Unrestricted	20,948,687	14,399,615	35,348,302	4,265,140	287,868	39,901,310
Total net assets	\$ 153,928,907	\$ 121,513,123	\$ 275,442,030	\$ 12,879,714	\$ 6,159,205	\$ 294,480,949

The notes to the financial statements are an integral part of this statement.

Statement of Activities

Year Ended June 30, 2002

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets					
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Component Units			Total Reporting Unit
					Governmental Activities	Business-type Activities	Total	Schools	Other	
Primary government:										
General government										
Education	\$ 13,407,536	\$ 693,327	\$ 333,433	\$ -	\$ (12,380,776)	\$ -	\$ -	\$ -	\$ -	\$ (12,380,776)
Judicial	39,746,612	-	60,552	-	(39,686,060)	-	-	-	-	(39,686,060)
Health and human services	3,455,684	701,093	1,147,967	-	(1,606,624)	-	-	-	-	(1,606,624)
Public safety	19,122,950	584,261	10,409,235	-	(8,149,454)	-	-	-	-	(8,149,454)
Public works	28,899,317	5,571,231	5,053,531	-	(18,274,555)	-	-	-	-	(18,274,555)
Community development	17,930,578	769,117	6,837,708	2,450,501	(7,873,252)	-	-	-	-	(7,873,252)
Cultural and recreational	6,403,903	1,018,332	2,644,089	564,458	(2,177,024)	-	-	-	-	(2,177,024)
Non-departmental	2,098,535	530,239	215,723	-	(1,352,573)	-	-	-	-	(1,352,573)
Debt service - other	3,327,441	-	-	-	(3,327,441)	-	-	-	-	(3,327,441)
Total governmental activities	2,334,975	-	-	-	(2,334,975)	-	-	-	-	(2,334,975)
	136,727,531	9,847,600	26,702,238	3,014,959	(97,162,734)	-	-	-	-	(97,162,734)
Business-type activities:										
Water	8,052,358	8,312,263	-	-	-	259,905	-	-	-	259,905
Sewer	10,677,119	12,705,123	38,500	6,371,216	-	8,437,720	-	-	-	8,437,720
Airport	3,176,673	1,167,905	270,679	1,230,862	-	(488,827)	-	-	-	(488,827)
Solid Waste Management	4,805,161	4,842,010	198,878	-	-	235,727	-	-	-	235,727
Total business-type activities	26,713,311	27,047,301	508,357	7,602,178	-	8,444,525	-	-	-	8,444,525
Total primary government	\$ 163,440,842	\$ 36,894,901	\$ 27,210,595	\$ 10,617,137	(97,162,734)	8,444,525	-	-	-	(88,718,209)
Component units:										
Schools	\$ 75,438,902	\$ 1,743,613	\$ 41,841,535	\$ 169,780	-	-	(31,863,974)	-	-	(31,863,974)
Greater Lynchburg Transit Company	3,975,928	904,841	1,618,738	3,560,289	-	-	-	2,107,940	-	2,107,940
Business Development Center	497,261	221,434	180,048	-	-	-	-	(95,779)	-	(95,779)
Total component units	\$ 79,912,091	\$ 2,869,888	\$ 43,440,321	\$ 3,730,069	-	-	(31,863,974)	2,012,161	-	(29,871,813)
General revenues:										
Property taxes					44,751,894	-	-	-	-	44,751,894
Other taxes					37,406,394	-	-	-	-	37,406,394
Unrestricted intergovernmental					8,627,063	-	-	-	-	8,627,063
Interest					987,575	652,564	12,460	-	-	1,652,599
Miscellaneous					2,775,382	72,254	385,247	91,285	-	3,304,168
City appropriation					-	-	39,136,491	592,322	-	39,728,813
Transfers					1,322,247	(1,322,247)	-	-	-	-
Gain on sale of assets					277,308	(15,141)	-	-	-	262,167
Total general revenues and transfers					96,147,863	(412,570)	39,514,198	683,607	-	135,933,098
Change in net assets					(1,014,871)	8,031,955	7,630,224	2,695,768	-	17,343,076
Net assets - beginning					154,943,778	113,481,188	5,249,490	3,463,437	-	277,137,873
Net assets - ending					\$ 153,928,907	\$ 121,513,123	\$ 12,878,714	\$ 6,159,205	\$	\$ 284,480,948

The notes to the financial statements are an integral part of this statement.

CITY OF LYNCHBURG, VIRGINIA

**Balance Sheet
Governmental Funds
June 30, 2002**

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 17,492,539	\$ 3,287,841	\$ 20,780,380
Receivables:			
Taxes excluding penalties	5,827,559	-	5,827,559
Accounts	768,235	-	768,235
Other	458,214	643,517	1,101,731
Due from other funds	2,301,315	685,133	2,986,448
Due from component units	132,387	155,000	287,387
Due from other governments	3,193,847	1,935,982	5,129,829
Other assets	128,555	-	128,555
Restricted cash and cash equivalents	82,782	-	82,782
Total assets	\$ 30,385,433	\$ 6,707,473	\$ 37,092,906
Liabilities and fund balances			
Liabilities:			
Accounts payable	\$ 1,004,230	\$ 1,242,825	\$ 2,247,055
Accrued liabilities	3,096,351	98,508	3,194,859
Retainage payable	9,307	58,777	68,084
Due to other governments	-	89,359	89,359
Due to other funds	408,750	1,668,265	2,077,015
Deposits payable from restricted assets	53,720	-	53,720
Deferred revenue	3,077,416	1,023,544	4,100,960
Workers' compensation payable	60,412	-	60,412
Claims and judgments liability	93,599	-	93,599
Total liabilities	7,803,785	4,181,278	11,985,063
Fund balances:			
Reserved for:			
Encumbrances	438,570	408,325	846,895
Unreserved:			
Designated	4,100,731	1,516,631	5,617,362
Undesignated	18,042,347	-	18,042,347
Unreserved, reported in nonmajor:			
Special revenue	-	601,239	601,239
Total fund balances	22,581,648	2,526,195	25,107,843
Total liabilities and fund balances	\$ 30,385,433	\$ 6,707,473	\$ 37,092,906

The notes to the financial statements are an integral part of this statement.

CITY OF LYNCHBURG, VIRGINIA

**Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2002**

Amounts reported for governmental activities in the statement of net assets are different because:

Ending fund balance - governmental funds	\$ 25,107,843
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	203,759,257
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	4,198,874
Internal service funds are used by management to charge the costs of dental insurance costs to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	9,238,091
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(88,375,158)</u>
Net assets of governmental activities	<u>\$ 153,928,907</u>

CITY OF LYNCHBURG, VIRGINIA

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2002

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 79,972,330	\$ -	\$ 79,972,330
Regulatory licenses, permits and privilege fees	727,489	-	727,489
Intergovernmental	26,464,743	10,293,917	36,758,660
Fines and forfeitures	776,701	-	776,701
Revenue from use of money and property	1,395,847	257,622	1,653,469
Charges for services	3,177,610	3,411,299	6,588,909
Miscellaneous	3,009,763	486,268	3,496,031
Total revenues	<u>115,524,483</u>	<u>14,449,106</u>	<u>129,973,589</u>
Expenditures			
Current:			
General government	13,258,157	-	13,258,157
Education	-	3,644	3,644
Judicial	3,320,619	-	3,320,619
Health and human services	14,844,129	3,894,125	18,738,254
Public safety	21,951,566	5,959,194	27,910,760
Public works	11,998,157	114,245	12,112,402
Community development	3,133,884	3,267,646	6,401,530
Cultural and recreational	1,637,069	80,120	1,717,189
Non-departmental	3,327,391	50	3,327,441
Capital outlay	-	6,548,077	6,548,077
Debt service:			
Principal retirement	3,293,886	1,925,687	5,219,573
Interest payments	1,882,148	475,254	2,357,402
Total expenditures	<u>78,647,006</u>	<u>22,268,042</u>	<u>100,915,048</u>
Excess (deficiency) of revenues over (under) expenditures	<u>36,877,477</u>	<u>(7,818,936)</u>	<u>29,058,541</u>
Other financing sources (uses)			
Transfers in	729,759	2,594,850	3,324,609
Transfer out	(4,798,497)	(334,790)	(5,133,287)
Transfer to component units	(31,462,089)	-	(31,462,089)
Total other financing sources (uses)	<u>(35,530,827)</u>	<u>2,260,060</u>	<u>(33,270,767)</u>
Net change in fund balances	<u>1,346,650</u>	<u>(5,558,876)</u>	<u>(4,212,226)</u>
Fund balance - beginning	<u>21,234,998</u>	<u>8,085,071</u>	<u>29,320,069</u>
Fund balance - ending	<u>\$ 22,581,648</u>	<u>\$ 2,526,195</u>	<u>\$ 25,107,843</u>

The notes to the financial statements are an integral part of this statement.

CITY OF LYNCHBURG, VIRGINIA

Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balance to the Statement of Activities
Year Ended June 30, 2002

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ (4,212,226)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the detail of the two components.	
Capital outlay	6,548,077
Depreciation expense	(8,866,337)
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is to increase net assets.	147,243
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	4,100,960
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related accounts.	(2,454,829)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	227,666
The internal service fund is used by management to charge the costs of dental insurance costs.	3,130,925
The net revenue of certain activities of the internal service fund is reported with governmental activities.	<u>363,650</u>
Change in net assets of governmental activities	<u>\$ (1,014,871)</u>

City of Lynchburg, Virginia

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
General Fund
Year Ended June 30, 2002

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
Revenues				
Taxes	\$ 84,358,797	\$ 84,227,375	\$ 79,972,330	\$ (4,255,045)
Regulatory licenses, permits and privilege fees	578,165	608,865	727,489	118,624
Intergovernmental	20,699,710	21,318,091	26,464,743	5,146,652
Fines and forfeitures	785,000	745,000	776,701	31,701
Revenue from use of money and property	2,180,786	1,464,254	1,395,847	(68,407)
Charges for services	3,012,868	2,726,662	3,177,610	450,948
Miscellaneous	2,753,314	2,771,695	3,009,763	238,068
Total revenues	114,368,640	113,861,942	115,524,483	1,662,541
Expenditures				
Current:				
General government	13,734,728	13,561,021	13,258,157	302,864
Judicial	3,419,766	3,334,957	3,320,619	14,338
Health and human services	15,571,371	15,212,053	14,844,129	367,924
Public safety	22,180,368	22,050,728	21,951,566	99,162
Public works	12,524,043	12,903,272	11,998,157	905,115
Community development	1,925,633	3,294,954	3,133,884	161,070
Cultural and recreational	1,674,667	1,671,081	1,637,069	34,012
Non-departmental	2,594,945	2,973,852	3,327,391	(353,539)
Debt service:				
Principal retirement	3,293,886	3,293,886	3,293,886	-
Interest payments	2,006,598	2,006,598	1,882,148	124,450
Total expenditures	78,926,005	80,302,402	78,647,006	1,655,396
Excess (deficiency) of revenues over (under) expenditures	35,442,635	33,559,540	36,877,477	3,317,937
Other financing sources (uses)				
Transfers in	611,440	302,433	729,759	427,326
Transfers out	(4,059,089)	(5,115,309)	(4,798,497)	316,812
Transfer to component units	(31,720,003)	(32,063,883)	(31,462,089)	601,794
Total other financing sources (uses)	(35,167,652)	(36,876,759)	(35,530,827)	1,345,932
Net change in fund balances	274,983	(3,317,219)	1,346,650	4,663,869
Fund balance - beginning	-	3,317,219	21,234,998	17,917,779
Fund balance - ending	\$ 274,983	\$ -	\$ 22,581,648	\$ 22,581,648

The notes to the financial statements are an integral part of this statement.

City of Lynchburg, Virginia

Statement of Net Assets
Proprietary Funds
June 30, 2002

	Enterprise Funds					Internal Service Fund
	Water Fund	Sewer Fund	Airport Fund	Solid Waste Management Fund	Total	
Assets						
Current assets						
Cash and cash equivalents	\$ 4,943,301	\$ 3,275,315	\$ 90,502	\$ 4,796,470	\$ 13,105,588	\$ 1,406,004
Cash - designated for landfill closure	-	-	-	2,400,150	2,400,150	-
Receivables (net of allowance for doubtful accounts):						
Accounts	327,929	854,091	186,387	558,245	1,926,652	40,629
Estimated unbilled service revenues	522,077	705,239	-	-	1,227,316	-
Other	34,052	395,431	13,681	703	443,867	7,051
Due from other governments	-	242,001	-	-	242,001	-
Inventory	417,490	-	-	-	417,490	104,571
Due from members - Regional Sewage Treatment Plant	-	617,620	-	-	617,620	-
Total current assets	6,244,849	6,089,697	290,570	7,755,568	20,380,684	1,558,255
Noncurrent assets						
Due from other governments, capital	-	1,391,024	88,992	-	1,480,016	-
Due from members - Regional Sewage Treatment Plant	-	5,006,810	-	-	5,006,810	-
Deferred expenses	216,687	328,073	16,320	103,841	664,921	-
Restricted cash and cash equivalents	809,425	517,744	1,024,517	262,785	2,614,471	-
Capital assets	44,614,564	137,993,016	24,726,453	10,712,586	218,046,619	7,878,775
Total noncurrent assets	45,640,676	145,236,667	25,856,282	11,079,212	227,812,837	7,878,775
Total assets	51,885,525	151,326,364	26,146,852	18,834,780	248,193,521	9,437,030
Liabilities and net assets						
Current liabilities						
Accounts payable	276,518	916,102	340,377	258,935	1,791,932	150,510
Accrued liabilities	292,917	595,157	108,012	207,701	1,203,787	31,711
Retainage payable	44,595	239,122	75,352	-	359,069	-
Current portion of general obligation bonds payable	1,267,659	2,007,725	363,663	988,250	4,627,297	-
Current portion of public utility revenue bonds payable	-	3,109,087	-	-	3,109,087	-
Current portion of landfill closure liability	-	-	-	159,628	159,628	-
Due to other funds	74,623	53,284	708,166	56,642	892,715	16,718
Total current liabilities	1,956,312	6,920,477	1,595,570	1,671,156	12,143,515	198,939
Noncurrent liabilities						
Deposits payable from restricted assets	299,419	-	40,095	-	339,514	-
General obligation bonds payable	18,811,611	29,185,620	2,480,339	8,394,099	58,871,669	-
Public utility revenue bonds payable	-	52,987,264	-	-	52,987,264	-
Landfill closure liability	-	-	-	2,240,522	2,240,522	-
Total noncurrent liabilities	19,111,030	82,172,884	2,520,434	10,634,621	114,438,969	-
Total liabilities	21,067,342	89,093,361	4,116,004	12,305,777	126,582,484	198,939
Net assets						
Investment in capital assets, net of related debt	25,031,692	58,225,166	21,197,318	1,586,793	106,040,969	7,878,775
Restricted	13,608	11,352	1,024,517	6,229	1,055,706	-
Unrestricted	5,772,883	3,996,485	(190,987)	4,935,981	14,514,362	1,359,316
Total net assets	\$ 30,818,183	\$ 62,233,003	\$ 22,030,848	\$ 6,529,003	\$ 121,611,037	\$ 9,238,091

Reconciliation with business type activities in the statement of net assets:

Total net assets - enterprise funds reported in this statement	\$ 121,611,037
Internal service fund activity is eliminated for the statement of activities, with residual activity allocated to user departments	(97,914)
Total net assets of business type activities	\$ 121,513,123

The notes to the financial statements are an integral part of this statement.

City of Lynchburg, Virginia

Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2002

	Enterprise Funds					Internal Service Fund
	Water Fund	Sewer Fund	Airport Fund	Solid Waste Management Fund	Total	
Operating revenues						
Charges for services and other operating revenues	\$ 8,312,263	\$ 12,705,123	\$ 1,187,905	\$ 4,842,010	\$ 27,047,301	\$ 1,615,453
Total operating revenues	<u>8,312,263</u>	<u>12,705,123</u>	<u>1,187,905</u>	<u>4,842,010</u>	<u>27,047,301</u>	<u>1,615,453</u>
Operating expenses						
Operations	3,880,382	3,906,689	1,279,072	2,990,814	12,056,957	1,425,289
Landfill closure and postclosure care	-	-	-	(378,687)	(378,687)	-
Administration	1,030,596	1,849,859	115,420	756,780	3,752,655	13,221
Maintenance and repairs	641,338	23,657	216,533	203,601	1,085,129	79,829
Depreciation and amortization	1,609,740	3,156,787	1,406,045	814,662	6,987,234	714,311
Total operating expenses	<u>7,162,056</u>	<u>8,936,992</u>	<u>3,017,070</u>	<u>4,387,170</u>	<u>23,503,288</u>	<u>2,232,650</u>
Operating income (loss)	<u>1,150,207</u>	<u>3,768,131</u>	<u>(1,829,165)</u>	<u>454,840</u>	<u>3,544,013</u>	<u>(617,197)</u>
Nonoperating revenue (expense)						
Interest income (net of interest capitalized)	151,034	421,275	27,840	252,415	852,564	1,248
Governmental grants	-	38,500	134,947	198,878	372,325	-
Passenger facility charges	-	-	136,032	-	136,032	-
Miscellaneous	19,695	7,729	2,648	44,618	74,690	167,373
Gain (loss) on disposition of assets	-	(13,643)	-	(3,934)	(17,577)	-
Interest on long-term debt (net of interest capitalized)	(858,389)	(1,695,680)	(150,993)	(407,047)	(3,112,109)	-
Total nonoperating revenue (expense)	<u>(687,660)</u>	<u>(1,241,819)</u>	<u>150,474</u>	<u>84,930</u>	<u>(1,694,075)</u>	<u>168,621</u>
Income (loss) before transfers and contributions	<u>462,547</u>	<u>2,526,312</u>	<u>(1,678,691)</u>	<u>539,770</u>	<u>1,849,938</u>	<u>(448,576)</u>
Transfers in	-	-	614,530	732,529	1,347,059	3,134,186
Transfers out	(401,998)	(328,346)	(995)	(1,937,967)	(2,669,306)	(3,263)
Capital contributions	-	6,371,216	1,230,962	-	7,602,178	-
Change in net assets	<u>60,549</u>	<u>8,569,182</u>	<u>165,806</u>	<u>(665,668)</u>	<u>8,129,869</u>	<u>2,682,349</u>
Total net assets - beginning	<u>30,757,634</u>	<u>53,663,821</u>	<u>21,865,042</u>	<u>7,194,671</u>	<u>113,481,168</u>	<u>6,555,742</u>
Total net assets - ending	<u>\$ 30,818,183</u>	<u>\$ 62,233,003</u>	<u>\$ 22,030,848</u>	<u>\$ 6,529,003</u>	<u>\$ 121,611,037</u>	<u>\$ 9,238,091</u>
Reconciliation with business type activities in the statement of activities:						
Change in net assets - enterprise funds reported in this statement					\$ 8,129,869	
Internal service fund activity is eliminated for the statement of activities, with residual activity allocated to user departments					(97,914)	
Change in net assets of business type activities					<u>\$ 8,031,955</u>	

The notes to the financial statements are an integral part of this statement.

CITY OF LYNCHBURG, VIRGINIA

**Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2002**

	Enterprise Funds					Internal Service Funds
	Water Fund	Sewer Fund	Airport Fund	Solid Waste Management Fund	Total	
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash received from operations	\$ 8,226,736	\$ 12,409,906	\$ 1,209,415	\$ 4,705,322	\$ 26,551,379	\$ 1,579,111
Cash paid to employees	(1,658,863)	(1,176,846)	(786,992)	(1,307,735)	(4,930,436)	(482,256)
Cash paid to suppliers	(3,901,092)	(4,162,561)	(648,700)	(2,527,261)	(11,239,614)	(1,025,504)
Cash used in operating activities	(5,559,955)	(5,339,407)	(1,435,692)	(3,834,996)	(16,170,050)	(1,507,760)
Net cash provided from (used in) operating activities	2,666,781	7,070,499	(226,277)	870,326	10,381,329	71,351
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfers to other funds	(401,998)	(323,346)	(995)	(1,937,967)	(2,664,306)	(3,263)
Advances from other funds	74,623	53,284	1,147,696	789,171	2,064,774	3,150,906
Net cash provided from (used in) noncapital financing activities	(327,375)	(270,062)	1,146,701	(1,148,796)	(599,532)	3,147,643
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from issuance of long-term debt						
General obligation bonds	3,520,000	7,045,000	-	1,924,884	12,489,884	-
Payment of long-term debt						
General obligation bonds	(1,332,652)	(879,291)	(357,680)	(841,224)	(3,410,847)	-
Revenue bonds	-	(3,803,884)	-	-	(3,803,884)	-
Line of credit	(695,588)	(5,140,782)	-	-	(5,836,370)	-
Drawdowns of public utility revenue bonds - revolving loan funds	-	3,922,813	-	-	3,922,813	-
Payments from members regional sewage treatment plant	-	597,353	-	-	597,353	-
Payment of interest on long-term debt	(980,489)	(2,016,845)	(158,531)	(455,539)	(3,611,404)	-
Capital contributions received	-	6,057,511	1,230,962	-	7,288,473	-
Intergovernmental grants	-	38,500	529,583	198,878	766,961	-
Passenger Facility Charges collected	-	-	136,032	-	136,032	-
Proceeds from sale of property and equipment	-	-	-	-	-	130,065
Additions to property and equipment	(2,105,653)	(12,116,830)	(2,894,439)	(1,817,269)	(18,934,191)	(2,732,707)
Proceeds from (payments to) other organizations	7,398	7,729	2,648	42,182	59,957	37,308
Net cash used in capital and related financing activities	(1,586,984)	(6,288,726)	(1,511,425)	(948,088)	(10,335,223)	(2,565,334)
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest income received	151,034	421,275	27,840	252,415	852,564	1,248
Net increase (decrease) in cash and cash equivalents	903,456	932,986	(563,161)	(974,143)	299,138	654,908
CASH AND CASH EQUIVALENTS						
Beginning	4,849,270	2,860,073	1,678,180	8,433,548	17,821,071	751,096
Ending	\$ 5,752,726	\$ 3,793,059	\$ 1,115,019	\$ 7,459,405	\$ 18,120,209	\$ 1,406,004
Current Assets	\$ 4,943,301	\$ 3,275,315	\$ 90,502	\$ 7,196,620	\$ 15,505,738	\$ 1,406,004
Restricted Assets	809,425	517,744	1,024,517	262,785	2,614,471	-
	\$ 5,752,726	\$ 3,793,059	\$ 1,115,019	\$ 7,459,405	\$ 18,120,209	\$ 1,406,004
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES						
Operating Income	\$ 1,150,207	\$ 3,768,131	\$(1,829,165)	\$ 454,840	\$ 3,544,013	\$ (617,197)
Adjustments to reconcile operating income to net cash provided by operations						
Depreciation	1,609,740	3,156,787	1,406,045	814,662	6,987,234	714,311
Landfill closure and postclosure cost	-	-	-	(378,687)	(378,687)	-
Changes in assets and liabilities						
(Increase) decrease in accounts receivable	(85,527)	(295,217)	21,510	(136,688)	(495,922)	(36,342)
Decrease in inventory	47,885	-	-	-	47,885	15,437
Increase in trade accounts payable	9,150	224,880	302,313	184,461	720,804	50,882
Increase (decrease) in accrued expenses	(95,505)	14,862	(50,127)	(65,403)	(196,173)	(27,612)
Increase (decrease) in retainage payable	(24,375)	201,056	(116,853)	(2,859)	56,969	(28,128)
Increase in deposits payable	55,206	-	40,000	-	95,206	-
Net cash provided from (used in) operating activities	\$ 2,666,781	\$ 7,070,499	\$ (226,277)	\$ 870,326	\$ 10,381,329	\$ 71,351
Supplemental Cash Flow Information						
NON-CASH TRANSACTIONS						
Public Utility revenue bonds - revolving loan funds commitment	\$ -	\$ 1,298,836	\$ -	\$ -	\$ 1,298,836	\$ -
Contributed capital by member localities in the regional treatment plant financed by a long-term note	-	71,704	-	-	71,704	-

The notes to the financial statements are an integral part to this statement.

CITY OF LYNCHBURG, VIRGINIA

Statement of Fiduciary Net Assets

Agency Fund

June 30, 2002

	Agency Fund
	Special
	Welfare
Assets	
Cash and cash equivalents	<u>\$ 82,964</u>
Liabilities	
Amounts held for others	<u>\$ 82,964</u>

The notes to the financial statements are an integral part to this statement.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2002

Note 1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

The City of Lynchburg, Virginia (the "City") was founded by John Lynch in 1757, chartered as a town in 1786, and incorporated in 1805. The City operates on a Council-Manager form of Government and provides all municipal services to its residents. As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the City (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

Discretely Presented Component Units: The component units' columns in the combined financial statements include the data of the City's three component units. They are reported in separate columns to emphasize that they are legally separate from the City. The governing bodies of these component units are appointed by City Council.

Lynchburg City Schools: The Lynchburg City Schools (the "Schools") operates one pre-school, eleven elementary, three middle and the two high schools in the City. The Schools are fiscally dependent on the City because the Schools' operational and capital budgets are approved by City Council. In addition, the Schools are prohibited from issuing bonded debt without approval of City Council.

Business Development Centre, Inc.: The Business Development Centre, Inc. (the "Centre") provides business advisory services to small businesses in the Central Virginia area, operates a business incubator, and provides financing for qualifying businesses under certain federal programs. The City provides financial support to the Centre by leasing to the Centre, at a nominal amount, the facility which houses the Centre's operations. The City has agreed to advance operating funds to the Centre to cover working capital needs.

Greater Lynchburg Transit Company: The Greater Lynchburg Transit Company ("GLTC") provides mass transit services to the area. The City provides financial support to GLTC through the assumption of the obligation to finance GLTC's deficits.

Complete financial statements of the individual component units can be obtained directly from their administrative offices at the following addresses:

Lynchburg City Schools
10th and Court Streets
Lynchburg, Virginia 24505-1599

Business Development Centre, Inc.
147 Mill Ridge Road
Lynchburg, Virginia 24502

Greater Lynchburg Transit Company
Post Office Box 797
Lynchburg, Virginia 24505-0797

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2002

Note 1. Summary of Significant Accounting Policies (Continued)

A. Financial Reporting Entity (Continued)

Jointly Governed Organizations: The following entities are excluded from the accompanying financial statements:

Blue Ridge Regional Jail Authority: The Blue Ridge Regional Jail Authority, (the "Authority"), was created by certain Member Jurisdictions for the purpose of developing and operating a regional jail system to be established by acquiring, renovating and expanding certain existing jail facilities and constructing additional jail facilities. The Member Jurisdictions are the Cities of Lynchburg and Bedford and the Counties of Halifax, Bedford, and Campbell. The Authority began operating the existing jail facilities in the Member Jurisdiction on July 1, 1998. The City sold its existing jail facilities to the Authority during FY 1997. A new central jail facility was constructed in Lynchburg and opened in FY 2000. It is owned and operated by the Authority. Each Member Jurisdiction pays a per diem charge for each day that one of its prisoners is at any Regional Jail Facility. In accordance with the Service Agreement, the Authority has divided the per diem charge into an operating component and a debt service component. The per diem charge is based upon an agreed upon number of prisoner days, and is subject to an adjustment at the end of each fiscal year. During the year ended June 30, 2002, the City paid \$2,738,843 to the Authority.

Central Virginia Community Services Board: The City, in conjunction with the counties of Amherst, Appomattox, Bedford and Campbell and the City of Bedford participate in the Central Virginia Community Services Board, which is composed of two members from each of the participating localities. The City appropriated \$414,286 for an operating contribution to the Central Virginia Community Services Board for the year ended June 30, 2002.

Related Organizations: The following entities are excluded from the accompanying financial statements:

Lynchburg Redevelopment and Housing Authority: Under the Code of Virginia ("Code"), the Commonwealth of Virginia ("Commonwealth") created in each city and county a redevelopment and housing authority which is a separate political subdivision of the Commonwealth. Under a resolution approved in April 1956, City Council declared a need for a housing authority in the City, activating the Lynchburg Redevelopment and Housing Authority (the "LRHA"). The LRHA owns and operates federal and state-assisted housing projects for low-income families and administers urban development projects. Commissioners of the LRHA are appointed by City Council; however, City Council is not financially accountable for LRHA.

Industrial Development Authority of the City of Lynchburg: Under the Code of Virginia, City Council passed an ordinance on March 14, 1967, which created the Industrial Development Authority of the City of Lynchburg (the "IDA"). The IDA was established to promote industry and develop trade within the City. The IDA is governed by a board of seven directors appointed by City Council; however, City Council is not financially accountable for the IDA.

Other Boards and Commissions: City Council appoints certain members of various boards and commissions' governing bodies as provided under state and local laws and ordinances. The boards and commissions are advisory in nature and City Council is not financially accountable for these organizations.

Note 1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation

The accounting and reporting policies of the City included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. All applicable GASB Statements have been implemented including GASB Statement No. 34 *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, which the City was required to implement effective fiscal year ended June 30, 2002. The accompanying financial statements present the government and its component units legally separate entities for which the City is financially accountable. As permitted in Section P80 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, the City has elected not to apply to its proprietary activities Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989.

Government-wide Statements: The statement of net assets and the statement of activities display information about the primary government and its component units. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are spent and the means by which spending activities are controlled. The various fund categories and fund types presented in the financial statements are described below:

Governmental Fund Types:

General Fund: The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds: Special Revenue Funds are used to account for the proceeds of specific revenue, other than major capital projects, that are legally restricted to expenditures for specified purposes. These funds consist of the City Federal/State Aid Projects, Community Development Block Grant, Title XX Grant, Museum System, Lynchburg Business Development Centre, Detention Home, Law Library, Highway Projects Grant, Recycling Program, Forfeited Assets, Lynchburg Expressway Appearance, Comprehensive Services Act, E-911, Home Investment Trust Funds, Partners In Emergency Response Fund, Central Virginia Radio Board, and Technology Fund.

Note 1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

Capital Projects Funds: Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds. This fund consists of the City Capital Projects.

Proprietary Fund Types:

Enterprise Funds: Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expense incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. These funds consist of the Water, Sewer, Solid Waste Management, and Airport Funds.

The total enterprise funds columns in the proprietary fund statement of net assets and activities are essentially equal to the business-type activity column in the government wide statements, with the exception of the impact of allocating internal service fund activity. For fiscal year 2002, the allocation of internal service fund activity reduced total net assets by \$97,914.

Internal Service Funds: To account for the financing of goods and services supplied to other funds of the City on a cost-reimbursement basis. A fleet management fund has been established to account for the operation and maintenance of City vehicles.

Fiduciary Fund Types:

Agency Funds: Agency Funds are used to account for assets held by the City as an agent or custodian for others. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations. These funds consist of the Special Welfare Funds.

C. Measurement Focus Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental and fiduciary fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both "measurable" and "available." Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 45 days of the end of the current fiscal period for most revenues and 90 days for grants collectible on a reimbursement basis. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Note 1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus Basis of Accounting (Continued)

Intergovernmental revenues, consisting principally of categorical aid from federal and state agencies, are recognized when earned or at the time of the specific expenditure. Sales and public utility taxes, which are collected by the Commonwealth of Virginia and public utilities, respectively, and subsequently remitted to the City, are recognized as revenues and receivables when measurable and available.

Expenditures in governmental funds are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. The exceptions to this general rule are principal and interest on general long-term debt, which are recognized when due.

Proprietary fund types utilize the accrual basis of accounting. Revenues are recognized when earned, including unbilled utility receivables and expenses are recognized when incurred.

The City reports the following major governmental funds: The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general City, except those required to be accounted for in another fund.

The City reports the following major proprietary funds: The *Water Fund*, *Sewer Fund*, *Airport Fund* and *Solid Waste Management Fund*.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund and of the City's internal service funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- 1) On or before April 15, the City Manager submits to City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- 2) Public hearings are conducted to obtain taxpayer comments.
- 3) Prior to June 30, the budget is legally enacted through passage of an appropriations resolution.

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgets and Budgetary Accounting (Continued)

- 4) The City Manager is authorized to transfer budget amounts between departments within any fund; however, any revisions that alter the total budget amounts and/or appropriations of any fund must be approved by City Council. City Council approved additional appropriations of \$2,052,350 during the fiscal year ended June 30 primarily for local match for various grants, human services programs, and additional operating expenditures. It also includes a carryforward of unexpended prior year appropriations for continuing programs. The Superintendent of the Schools is authorized to transfer budget amounts within departments; however, any revisions that alter total budget amounts of any department must be approved by the School Board.
- 5) Formal budgetary integration is employed as a management control device during the year for all funds.
- 6) Budgets for the General Fund and the Capital Projects Funds are prepared in accordance with management's and the City Attorney's interpretation of the City Charter, which is principally the cash basis of accounting. Encumbrances are treated as a reservation of fund equity and reappropriated in the next fiscal year. Further, certain revenues, expenditures, and operating transfers related to internal service type functions are not included for budget purposes. The budget for the Lynchburg City Schools (School Operating Special Revenue Fund) is prepared on modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Project budgets are utilized in the Capital Projects Funds. All General Fund appropriations which are not encumbered lapse at year end. Appropriations for the Capital Projects Funds are continued until completion of applicable projects, even when projects extend for more than one fiscal year, or until repealed.

E. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the appropriation, is employed as an extension of formal budgetary integration in the General Fund, Special Revenue Funds, and Capital Projects Funds. Encumbrances outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

F. Cash and Cash Equivalents

For purposes of the combined statement of cash flows, the City considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

G. Equity in Cash and Cash Equivalents

Cash received by the City is deposited in various bank accounts. Monies (equity in cash and cash equivalents) for all funds controlled by the City, including funds of the Lynchburg City Schools, a discretely presented component unit, are deposited in a group of bank accounts or used to purchase temporary investments. Restricted cash and temporary cash investments of the General Fund and Enterprise Funds include certain deposits, unexpended bond proceeds and amounts related to the Passenger Facility Charge Program at the Lynchburg Regional Airport.

H. Investments

Investments are stated at fair value. Interest earned by certain funds of the Discretely Presented Component Unit – Lynchburg City Schools is allocated to the General Fund. All other interest is allocated to the fund which owns the underlying investments.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2002

Note 1. Summary of Significant Accounting Policies (Continued)

I. Receivables

Receivables are presented net of allowances for doubtful accounts. The amounts of these allowances by fund follow:

General Fund	\$1,149,229
Enterprise Funds	515,651

J. Inventory

Inventories consist of major items held for consumption by the governmental funds. Inventories are valued at cost using the first-in, first-out (FIFO) method. Disbursements for inventory type items of the City are considered to be expenditures at the time of use ("consumption method" of accounting). Supplies transferred to and consumed by the individual departments are considered a reduction of inventory and an expenditure of the user department.

Inventory in the Enterprise Funds is valued at cost using the first-in first-out (FIFO) method. This inventory consists principally of spare parts held for consumption. The cost of these spare parts is recorded as an expense at the time individual inventory items are withdrawn for use.

K. Capital Assets

Governmental funds: Capital outlays are recorded as expenditures on the governmental fund financial statements and as assets on the government-wide financial statements to the extent the City's capitalization threshold of \$5,000 is met. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively to 1980. Depreciation on capital assets has been recorded over the estimated useful lives using the straight-line method.

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated.

Proprietary Fund Types: Capital outlays of the proprietary funds are recorded as capital assets on both the fund basis and the government-wide basis. Capital assets are stated at cost or estimated original cost based on independent consultant studies, net of accumulated depreciation. Donated capital assets are recorded at their fair value at the date of receipt. Repairs and maintenance are charged to expense when incurred. When capital assets are sold or retired, the cost of the assets and the related accumulated depreciation are eliminated and a gain or loss is recognized. Depreciation has been provided over the estimated useful lives using the straight-line method. Deprecation rates are as follows:

Water and wastewater building and pumping, treatment, distribution, and gathering equipment	2% to 33%
Solid waste management system land improvements, buildings and equipment	2% to 33%
Airport facilities and improvements and related equipment	2% to 33%
Internal fleet services buildings and equipment	2% to 33%

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2002

Note 1. Summary of Significant Accounting Policies (Continued)

K. Capital Assets (Continued)

The City follows the policy of capitalizing, during the period of construction, the net interest costs on funds borrowed to finance the construction of proprietary capital assets. During 2002, the enterprise funds incurred interest costs of \$3,138,922 of which \$463,216 was capitalized.

L. Deferred Expenses

Deferred expenses, primarily bond-related costs, are amortized on the straight-line method over the life of the related bond issue.

M. Deferred Revenue

Deferred revenue in the General Fund consists primarily of property taxes and other receivables not collected within 45 days of year-end. Deferred revenue in the Special Revenue Funds and Capital Projects Funds represent primarily grant funds received or accrued but not expended for their restricted purposes and receivables not collected within 45 days of year end, respectively.

N. Vacation Pay Liability

City employees accumulate vacation time depending upon their length of service up to a total of 288 hours. All outstanding vacation time is payable upon termination of employment. The current portions are not recorded as liabilities in the governmental fund financial statements until they have matured as a result of employee resignations and retirements. In proprietary funds, both the expenses and the liabilities are recorded as benefits are earned. All vacation pay is accrued when incurred in the government-wide financial statements.

O. Interfund Transactions

During the course of normal business operations the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, or satisfy certain obligations. These transactions are generally reflected as transfers. Subsidies between funds are recorded as transfers.

P. Estimates

Management uses estimates and assumptions in preparing its financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities and reported revenues, expenditures and expenses.

Q. Net Assets / Fund Equity

Net Assets in government-wide and proprietary financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

In the fund financial statements, City funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2002

Note 2. Cash and Investments

Deposits:

At June 30, 2002, the carrying value of the City's deposits with banks was \$(2,605,812) and the bank balance was \$1,266,960 all of which was covered by the Federal Depository Insurance Corporation (FDIC) or insured in accordance with the Virginia Security for Public Deposits Act (the "Act"). Under the Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings and loan institutions are required to collateralize 100% of deposits in excess of FDIC limits. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks and savings and loans.

The carrying amount of deposits of the Lynchburg City Schools, a discretely presented component unit at June 30, 2002 was \$(523,358) and the bank balance was \$ 188,532.

The carrying amount of deposits of the City's other discretely presented component units was \$493,552 and the bank balance was \$626,824. Of the bank balance, \$301,194 was covered by Federal depository insurance and considered a category 1 deposit. An amount of \$325,626 was uninsured and uncollateralized at June 30, 2002 and considered a category 3 deposit.

Investments:

Statutes authorize local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool.

The City's investments are categorized below to give an indication of the level of risk assumed by the entity at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its safekeeping agent in the City's name. Category 2 includes uninsured or unregistered investments for which the securities are held by the counterparty's trust department or safekeeping agent but not in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or safekeeping agent, but not in the City's name.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2002

Note 2. Cash and Investments

Investments: (Continued)

At June 30, 2002, the City's investment balances were as follows:

	Category			Fair Value
	1	2	3	
Repurchase agreements	\$ 4,900,000	\$ -	\$ -	\$ 4,900,000
Investments not subject to categorization:				
Investment in State Treasurer's Local Government Investment Pool (LGIP)				36,829,792
Money market funds - Commonwealth Cash Reserve Fund (AIM)				1,319,597
				<u>\$ 43,049,389</u>

At June 30, 2002, the Lynchburg City Schools' investment balances were as follows:

	Fair Value	
Investments not subject to categorization:		
Greater Lynchburg Community Trust Mutual Funds	\$	66,890
Investment in State Treasurer's Local Government Investment Pool (LGIP)		11,654,167
Money market funds - Commonwealth Cash Reserve Fund (AIM)		1,654,477
		<u>\$ 13,375,534</u>
Reconciliation of deposits and investments to combined balance sheet:	Primary	School Board
Cash and deposits:	Government	Component Unit
Cash on hand	\$ 28,800	\$ 500
Deposits	(2,605,812)	(523,358)
Investments	43,049,388	13,375,534
	<u>\$40,472,376</u>	<u>\$ 12,852,676</u>
Statement of Net Assets		
Cash and cash equivalents and investments	\$37,692,122	\$ 10,972,071
Restricted cash and cash equivalents and investments	2,697,253	1,696,555
Restricted investments	-	184,050
Fiduciary fund cash	83,001	-
	<u>\$40,472,376</u>	<u>\$ 12,852,676</u>

Note 3. Property Taxes

Property taxes are levied on a fiscal year basis on July 1, the assessment date, and become a lien as of that date. Personal property assessments are prorated for additional acquisitions of personal property throughout the year resulting in additional billings to taxpayers. Real estate taxes are payable in four quarterly installments on November 15, January 15, March 15, and May 15. Personal property taxes are payable on November 15, and additional billings are due February 15.

A penalty of 10% for late payment and interest at the rate of 10% is charged on unpaid balances. The City bills and collects its own property taxes.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2002

Note 4. Interfund Receivables and Payables

Interfund balances at June 30, 2002, were as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Primary Government:		
General	\$ 1,657,750	\$ 406,047
Recreation	-	2,703
Special Revenue:		
City Federal Aid Fund	-	410,707
Community Development Block Grant Fund	-	315,531
Lynchburg Business Development Center Fund	-	30,000
Detention Home Fund	-	128,250
Comprehensive Services Act Fund	-	573,763
E-911 Fund	-	61,800
Home Investment Trust Fund	-	146,871
Title XX	-	1,343
City Capital Project Fund	685,133	-
Airport Enterprise Fund	-	708,166
Solid Waste Enterprise Fund	-	56,642
Water Enterprise Fund	-	74,623
Sewer Enterprise Fund	-	53,284
Internal Services	-	16,718
City Payroll	643,565	-
	<u>\$ 2,986,448</u>	<u>\$ 2,986,448</u>
Totals		

Note 5. Due From/To Primary Government and Component Units

Due from/to balances between the City and its component units at June 30, 2002, were as follows:

	<u>Due From</u>	<u>Due To</u>
Primary Government:		
General	\$ 132,387	\$ -
Special Revenue:		
Lynchburg Business Development Centre Fund	155,000	-
	<u>\$ 287,387</u>	<u>\$ -</u>
Component Units:		
Business Development Centre, Inc.	\$ -	\$ 155,000
Greater Lynchburg Transit Company	-	132,387
	<u>\$ -</u>	<u>\$ 287,387</u>

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2002

Note 6. Due From Other Governments

Amounts due from other governments at June 30, 2002, consisted of the following:

	Primary Government	Component Units
Amounts due from Virginia Resources Authority (unspent bond proceeds)	\$ 1,391,024	\$ -
Amounts due from surrounding counties	47,679	-
Amounts due from members of Regional Sewage Treatment Plant	5,624,430	-
Amounts due from Lynchburg Industrial Development Authority	200,000	-
Amounts due from state for highway grants	435,785	-
Amounts due from various federal and state grants	4,446,152	799,395
Amounts due from Federal Aviation Administration	88,992	-
Other amounts due from other governments	213	-
Total	<u>\$ 12,234,275</u>	<u>\$ 799,395</u>

Long term notes receivable – Sewer fund

The amounts due from members of the Regional Sewage Treatment Plant Agreement (Agreement) of June 6, 1974 represent amounts due from Amherst County, the Bedford County Public Service Authority and the Campbell County Utilities and Service Authority for their proportionate share (20%) of improvements to Joint-Use Facilities. These Joint-Use Facilities are defined as the City's waste water treatment plant and its immediately related treatment facilities used jointly by the City and one or more of the Counties in connection with the transmission or treatment of wastes made the subject of the Agreement. The cost of improvements are billed to each community and recorded as contributed capital when related projects are completed. Pursuant to Section VI (b) of the Agreement, each County shall have the option of paying its proportionate share of the cost of the project either in cash or on a deferred payment schedule coinciding with the period over which the City's bonds are amortized plus interest at the rate equivalent to the net interest cost to the City. The Counties have elected to pay their share of improvements coinciding with the City's. Future payments to be received are as follows:

	Gross Amount Receivable	Discount Amount	Net of Discount
Amount receivable within 1 year	\$ 617,620	\$ -	\$ 617,620
Amount receivable 1 to 5 years	2,788,482	406,787	2,381,695
Amount receivable beyond 5 years	4,725,573	2,100,458	2,625,115
	<u>\$ 8,131,675</u>	<u>\$ 2,507,245</u>	<u>\$ 5,624,430</u>

The discount rate used for notes receivable was the Treasury bill rate at June 30, 2002 of 5.58%. The gross amount receivable column includes principal and interest.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2002

Note 7. Capital Assets

Primary Government

A summary of the changes in the City's capital assets for governmental activities is as follows:

	Restated Balances June 30, 2001	Transfers and Additions	Transfers and Retirements	Balances June 30, 2002
Capital assets, cost				
Land	\$ 4,777,388	\$ -	\$ 15,500	\$ 4,761,888
Land improvements	2,220,049	135,323	-	2,355,372
Buildings and improvements	79,847,084	4,937,500	132,564	84,652,020
Infrastructure	167,927,715	3,139,218	-	171,066,933
Machinery and equipment	16,573,393	3,242,534	604,743	19,211,184
Construction in progress	24,837,440	16,277,173	8,125,470	32,989,143
	<u>296,183,069</u>	<u>27,731,748</u>	<u>8,878,277</u>	<u>315,036,540</u>
Less - accumulated depreciation for:				
Land improvements	687,160	113,929	-	801,089
Buildings and improvements	30,652,875	2,093,885	88,543	32,658,217
Infrastructure	55,031,478	4,601,095	-	59,632,573
Machinery and equipment	8,779,934	2,057,428	530,733	10,306,629
	<u>95,151,447</u>	<u>8,866,337</u>	<u>619,276</u>	<u>103,398,508</u>
Capital assets - net	<u>\$ 201,031,622</u>	<u>\$ 18,865,411</u>	<u>\$ 8,259,001</u>	<u>\$ 211,638,032</u>

The gross cost and accumulated depreciation balances at June 30, 2001 were restated to capitalize infrastructure assets, to record school assets related to general obligation debt, to record Internal Service Fund assets and to record accumulated depreciation in accordance with the adoption of GASB Statement No. 34. The cost of assets as of June 30, 2001 were restated as follows:

	Balances June 30, 2001	Restatement Additions	Deletions	School Assets	Restated Balances June 30, 2001
Land and improvements	\$ 8,530,973	\$ -	\$ 1,533,536	\$ -	\$ 6,997,437
Buildings and improvements	51,159,526	3,256,748	-	25,430,810	79,847,084
Infrastructure	-	167,927,715	-	-	167,927,715
Machinery and equipment	14,424,601	2,652,317	503,525	-	16,573,393
Construction in progress	8,994,454	11,238,204	-	4,604,782	24,837,440
	<u>\$ 83,109,554</u>	<u>\$ 185,074,984</u>	<u>\$ 2,037,061</u>	<u>\$ 30,035,592</u>	<u>\$ 296,183,069</u>

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2002

Note 7. Capital Assets (Continued)

Depreciation was charged to governmental functions as follows:

General government	\$ 253,578
Education	606,477
Judicial	147,851
Health and human services	391,517
Public Safety	1,063,044
Public Works	5,947,925
Community development	30,562
Cultural and recreational	425,383
	<u>\$ 8,866,337</u>

A detail of the City's capital assets for business type activities is as follows:

	Restated Balances June 30, 2001	Transfers and Additions	Transfers and Retirements	Balances June 30, 2002
Capital assets, cost				
Land	\$ 5,350,210	\$ -	\$ -	\$ 5,350,210
Land improvements	15,012,160	-	-	15,012,160
Buildings and improvements	31,063,498	1,080,395	-	32,143,893
Infrastructure	167,853,429	19,243,200	72,640	187,023,989
Machinery and equipment	16,603,575	163,411	354,945	16,412,041
Capitalized interest	3,399,812	1,755,893	-	5,155,705
Construction in progress	38,479,077	19,699,452	21,238,292	36,940,237
	<u>277,761,761</u>	<u>41,942,351</u>	<u>21,665,877</u>	<u>298,038,235</u>
Less - accumulated depreciation for:				
Land improvements	9,389,357	559,977	-	9,949,334
Buildings and improvements	9,517,262	947,657	-	10,464,919
Infrastructure	42,960,988	4,238,761	66,885	47,132,864
Machinery and equipment	10,997,795	1,149,207	343,033	11,803,969
Capitalized interest	548,898	91,632	-	640,530
	<u>73,414,300</u>	<u>6,987,234</u>	<u>409,918</u>	<u>79,991,616</u>
Capital assets - net	<u>\$ 204,347,461</u>	<u>\$ 34,955,117</u>	<u>\$ 21,255,959</u>	<u>\$ 218,046,619</u>

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements As of June 30, 2002

Note 7. Capital Assets (Continued)

The gross cost and accumulated depreciation balances for business type activities at June 30, 2001 were restated to remove Internal Service Fund assets from the balances and were adjusted as follows:

	Balances June 30, 2001	Restatement		Restated Balances June 30, 2001
		Additions	Deletions	
Land and improvements	\$ 20,362,370	\$ -	\$ -	\$ 20,362,370
Buildings and improvements	34,320,246	-	3,256,748	31,063,498
Infrastructure	168,029,867	-	176,438	167,853,429
Machinery and equipment	19,255,892	-	2,652,317	16,603,575
Capitalized interest	3,399,812	-	-	3,399,812
Construction in progress	38,481,852	-	2,775	38,479,077
	<u>\$ 283,850,039</u>	<u>\$ -</u>	<u>\$ 6,088,278</u>	<u>\$ 277,761,761</u>

Component Units

Activity for the year ended June 30, 2002 for capital assets capitalized by the Schools and a detail of Greater Lynchburg Transit Company is summarized as follows:

<u>Lynchburg City Schools</u>	Restated Balances June 30, 2001	Transfers and Additions	Transfers and Retirements	Balances June 30, 2002
Capital assets, cost				
Land and improvements	\$ 1,032,624	\$ -	\$ -	\$ 1,032,624
Buildings and improvements	34,968,554	-	-	34,968,554
Paving	773,920	19,200	-	793,120
Equipment	9,331,306	450,363	-	9,781,669
Equipment - Cafeteria	1,059,768	26,830	-	1,086,598
	<u>47,166,172</u>	<u>496,393</u>	<u>-</u>	<u>47,662,565</u>
Less - accumulated depreciation for:				
Buildings and improvements	32,357,725	474,705	-	32,832,430
Paving	291,489	79,312	-	370,801
Equipment	4,279,675	409,511	-	4,689,186
Equipment - Cafeteria	304,136	108,660	-	412,796
	<u>37,233,025</u>	<u>1,072,188</u>	<u>-</u>	<u>38,305,213</u>
Capital assets - net	<u>\$ 9,933,147</u>	<u>\$ (575,795)</u>	<u>\$ -</u>	<u>\$ 9,357,352</u>

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2002

Note 7. Capital Assets (Continued)

The gross cost and accumulated depreciation balances for the Schools at June 30, 2001 were restated to capitalize infrastructure assets, to record school assets related to general obligation debt transferred to the primary government and to record accumulated depreciation in accordance with the adoption of GASB Statement No. 34. The cost of assets as of June 30, 2001 were restated as follows:

	Balances June 30, 2001	Restatement		Transfer to Primary Government	Restated Balances June 30, 2001
		Additions	Deletions		
Land and improvements	\$ 1,487,502	\$ -	\$ 454,878	\$ -	\$ 1,032,624
Buildings	60,718,406	125,044	444,086	25,430,810	34,968,554
Paving	-	773,920	-	-	773,920
Equipment	9,331,306	-	-	-	9,331,306
Equipment - Cafeteria	1,059,768	-	-	-	1,059,768
Furniture	2,544,330	-	2,544,330	-	-
Computers	9,043,279	-	9,043,279	-	-
Construction in progress	4,604,782	-	-	4,604,782	-
	<u>\$ 88,789,373</u>	<u>\$ 898,964</u>	<u>\$ 12,486,573</u>	<u>\$ 30,035,592</u>	<u>\$ 47,166,172</u>

Greater Lynchburg Transit Company

Land, buildings and improvements	\$ 1,733,857
Machinery and Equipment	9,027,607
	10,761,464
Less accumulated depreciation	(4,890,126)
	<u>\$ 5,871,337</u>

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements As of June 30, 2002

Note 8. Debt

General Obligation Bonds:

Details of general obligation bonds of the City at June 30, 2002 are as follows:

	Interest Rates	Date Issued	Final Maturity Date	Amount of Original Issue	Primary Government		Proprietary Funds
					Public Improvements	School Facilities	
Bond anticipation note							
Public Improvement BANS	4.50%	10/01/1999	2004	\$ 3,345,000	\$ 1,790,000	\$ -	\$ -
School BAN	2.85%	08/01/2001	2004	7,500,000	-	7,500,000	-
Serial bonds							
Virginia Public School Authority G.O. Bonds	4.90-6.35%	11/12/1992	2012	458,292	-	272,476	-
Public Improvement Bonds	5.20-5.80%	01/01/1993	2013	18,375,000	445,228	349,864	1,054,908
Public Improvement Refunding Bonds	2.80-5.25%	04/01/1993	2011	35,760,000	5,744,515	1,093,574	15,271,911
Public Improvement Bonds	4.125-5.00%	01/01/1994	2014	9,000,000	3,136,140	-	2,263,860
Virginia Resources Authority Public Improvement Bonds	4.50%	03/24/1994	2016	3,976,369	-	-	3,158,372
Virginia Public School Authority G.O. Bonds	6.25-6.75%	11/22/1994	2014	2,100,362	-	1,465,591	-
Public Improvement Bonds	5.35-6.50%	01/01/1995	2015	9,800,000	393,618	1,100,000	466,382
Taxable Refunding Bonds	5.40-6.75%	01/01/1996	2014	7,150,000	-	5,215,000	-
Public Improvement Bonds	4.30-4.90%	02/01/1996	2016	5,000,000	3,386,600	-	113,400
Public Improvement Bonds	4.60-5.40%	02/15/1997	2017	16,000,000	3,975,000	5,400,000	2,925,000
Public Improvement Bonds	4.00-5.00%	04/01/1998	2018	33,855,000	9,193,081	7,373,071	14,233,848
Public Improvement Bonds	4.25-5.00%	06/01/1999	2019	17,805,000	6,896,017	2,417,582	6,131,401
Public Improvement Bonds	5.25-5.75%	07/18/2000	2030	14,405,000	5,883,215	2,556,785	5,390,000
Public Improvement Bonds	4.0-4.875%	08/16/2001	2031	14,620,000	-	2,130,116	12,489,884
Virginia Public School Authority G.O. Bonds	3%	11/15/2001	2021	3,473,329	-	3,473,329	-
					<u>\$ 40,843,414</u>	<u>\$ 40,347,388</u>	<u>\$ 63,498,966</u>

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements As of June 30, 2002

Note 8. Debt (Continued)

Bonds issued between 1991 and 2002 are callable subject to a maximum premium of 2%.

Authorized and unissued general obligation public improvement bonds and public utility revenue bonds amounted to \$10,070,000 and \$5,888,256 respectively, at June 30, 2002. The City also has an authorized but unissued loan with the Department of Housing and Urban Development in the amount of \$3,200,000.

In prior years, the City has defeased various bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the City's Statement of Net Assets. As of June 30, 2002, \$4,410,000 of outstanding bonds are considered defeased and are not included in the City's financial statements.

The Commonwealth imposes a legal limit of 10% of assessed valuation on the amount of general obligation borrowings that may be issued by the City. As of June 30, 2002, the City's aggregate general obligation indebtedness was \$147,504,606 less than the state limit. There are no overlapping or underlying tax jurisdictions.

Revenue Debt

Details of revenue debt of the City's Enterprise Funds at June 30, 2002 are as follows:

	Interest Rates	Date Issued	Maturity Date	Original Issue	Enterprise Funds
Virginia Resources Authority:					
Public Utility Revenue Bonds	0%	03/01/1995	2016	\$ 6,571,000	\$ 4,545,457
Public Utility Revenue Bonds	0%	08/01/1995	2017	10,000,000	7,708,331
Public Utility Revenue Bonds	0%	06/27/1996	2016	8,000,000	6,014,744
Public Utility Revenue Bonds	3.00%	07/17/1997	2019	14,108,460	13,261,387
Public Utility Revenue Bonds	0%	07/17/1997	2019	7,591,540	6,423,610
Public Utility Revenue Bonds	0%	08/01/1998	2019	6,203,000	5,554,956
Public Utility Revenue Bonds	3.00%	05/26/1999	2019	2,591,540	2,323,595
Public Utility Revenue Bonds	0%	10/01/1999	2021	5,300,000	5,300,000
Public Utility Revenue Bonds	0%	02/17/2001	2020	735,000	715,658
Public Utility Revenue Bonds	3.50%	06/08/2001	2021	2,835,000	2,835,000
Public Utility Revenue Bonds	0%	11/06/2001	2022	1,413,613	1,413,613
Total Revenue Debt					\$ 56,096,351

The revenue bonds have been issued in accordance with the terms of an indenture agreement with the Virginia Resources Authority (VRA) of the Commonwealth of Virginia. The indenture agreement requires the City to pledge its Sewer Fund revenues as collateral for the revenue bonds and to maintain debt coverage in the Sewer Fund equal to at least 1.15 of all debt service payments. As shown below, the debt coverage ratio for the year ended June 30, 2002 was 1.193.

Sewer Fund Operating income	\$ 3,768,131
Plus interest income	421,275
Government grants and miscellaneous income	46,229
Plus depreciation and amortization	3,156,787
Plus capital contributions paid by other Jurisdictions	597,353
Net revenue per indenture	<u>\$ 7,989,775</u>
Net principal and interest payments	<u>\$ 6,700,020</u>
Debt coverage	<u>1.193</u>

*Excludes principal and interest on line of credit

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements As of June 30, 2002

Note 8. Debt (Continued)

Primary Government

The following is a summary of changes in general obligation bonds payable, revenue bonds payable, and other long-term liabilities for the year ended June 30, 2002:

	Balance July 1, 2001	Additions	Deletions	Balance June 30, 2002	Current Portion
Governmental Activities					
Bond anticipation notes payable	\$ 7,095,000	\$ 7,500,000	\$ 5,305,000	\$ 9,290,000	\$ 1,180,000
General obligation bonds payable	71,634,254	5,603,445	5,336,897	71,900,802	5,194,564
State literary fund loans payable	341,287	-	58,275	283,012	58,275
Workers' compensation payable	306,962	-	6,556	300,406	60,412
Vacation pay liability	3,553,621	-	40,269	3,513,352	422,499
Claims and judgements	93,599	-	93,599	-	-
Capitalized lease obligations	2,595,353	-	198,744	2,396,609	210,275
	<u>\$ 85,620,076</u>	<u>\$ 13,103,445</u>	<u>\$ 11,039,340</u>	<u>\$ 87,684,181</u>	<u>\$ 7,126,025</u>
Business Type Activities					
General obligation bonds payable	\$ 55,521,290	\$ 12,489,883	\$ 4,512,207	\$ 63,498,966	\$ 4,627,297
Public utility revenue bonds payable	57,500,038	1,413,613	2,817,300	56,096,351	3,109,087
Vacation pay liability	335,170	-	12,489	322,681	-
Landfill closure liability - open landfill	2,516,400	-	315,785	2,200,615	-
Landfill closure liability - closed landfill	262,437	-	62,902	199,535	159,628
	<u>\$ 116,135,335</u>	<u>\$ 13,903,496</u>	<u>\$ 7,720,683</u>	<u>\$ 122,318,148</u>	<u>\$ 7,896,012</u>

Debt Service to Maturity: Following is a summary of debt service to maturity for long-term debt:

Year ending June 30	General Obligation Bonds Governmental Obligation		State Literary Fund Loans	
	Principal	Interest	Principal	Interest
2003	\$ 6,374,564	\$ 3,922,491	\$ 58,275	\$ 10,124
2004	13,339,982	3,483,668	58,275	8,186
2005	5,270,649	3,101,649	39,525	6,248
2006	4,932,252	2,848,014	39,525	4,870
2007	4,983,728	2,608,975	19,000	3,496
Thereafter	46,289,627	13,668,815	68,412	6,387
Total	<u>\$ 81,190,802</u>	<u>\$ 29,633,612</u>	<u>\$ 283,012</u>	<u>\$ 39,311</u>

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2002

Note 8. Debt (Continued)

Debt Service to Maturity: (Continued)

Year ending June 30	General Obligation Bonds							
	Enterprise Funds							
	Sewer Fund		Water Fund		Solid Waste Management Fund		Airport Fund	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2003	\$ 2,007,725	\$ 1,493,331	\$ 1,267,659	\$ 981,606	\$ 988,250	\$ 448,087	\$ 363,663	\$ 140,680
2004	2,021,098	1,396,522	1,271,800	920,677	987,149	400,639	363,618	122,591
2005	2,305,808	1,290,475	1,389,807	855,357	989,245	353,046	359,023	103,858
2006	2,184,896	1,185,234	1,322,176	791,104	985,915	307,072	321,155	85,999
2007	2,190,851	1,085,026	1,322,631	729,637	984,854	260,554	316,808	68,833
Thereafter	20,482,968	8,223,843	13,505,197	6,004,231	4,446,936	697,117	1,119,735	236,908
Total	\$ 31,193,346	\$ 14,674,431	\$ 20,079,270	\$ 10,282,612	\$ 9,382,349	\$ 2,466,515	\$ 2,844,002	\$ 758,869

Year ending June 30	Revenue Bonds	
	Principal	Interest
2003	\$ 3,109,087	\$ 591,834
2004	3,223,277	537,917
2005	3,248,720	512,474
2006	3,274,952	486,242
2007	3,301,999	459,196
Thereafter	39,938,316	3,093,594
Total	\$ 56,096,351	\$ 5,681,257

Component Unit – Lynchburg City Schools

The following is a summary of other long-term liabilities for the year ended June 30, 2002:

	Balance July 1, 2001	Additions	Deletions	Balance June 30, 2002	Current Portion
Vacation pay liability	\$ 374,569	\$ 161,209	\$ -	\$ 535,778	\$ -
Capitalized lease obligations	2,198,549	1,000,000	1,150,944	2,047,605	774,026
	\$ 2,573,118	\$ 1,161,209	\$ 1,150,944	\$ 2,583,383	\$ 774,026

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements

As of June 30, 2002

Note 9. Landfill Closure and Postclosure Care Costs

The City closed its Tyreana I landfill site on October 8, 1993. In accordance with federal and state laws, the City placed a final cover on this site and will perform certain maintenance and monitoring functions at this site for ten years after closure. The cumulative amount of estimated closure and post closure care costs to date for this site is \$3,854,413. As of June 30, 2002, total payments to date are \$3,654,878 leaving estimated closing costs of \$199,535. This amount is included in the landfill closure and postclosure liability in the Solid Waste Management Enterprise Fund.

The City's Tyreana II landfill site began accepting waste on October 9, 1993. State and federal laws also require the City to place a final cover on this site when it stops accepting waste and to perform maintenance and monitoring functions at this site for thirty years after closure. Although closure and postclosure care costs are paid only near or after the date the landfill stops accepting waste, the City reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. Estimated closure and postclosure care costs at June 30, 2002 of \$2,200,615 for the Tyreana II landfill site is based upon the total estimated closure and postclosure care costs of \$ 5,566,948 times 39.5 percent of the landfill used to date. The City will recognize the remaining estimated cost of closure and postclosure care of \$3,366,334 as the remaining estimated capacity is filled. The City expects to close the landfill in 2014. Actual cost may be higher due to inflation, changes in technology or changes in regulations. The total closure/post closure cost estimate decreased by \$1,143,451 primarily due to reduced monitoring requirements approved by the Department of Environmental Quality.

Note 10. Fund Equity Balances

Reserved Fund Balance: Fund balance reserves are used to indicate the portion of fund balance that is not available for appropriation or is legally segregated for a specific future use.

Designated Fund Balance: Designations of fund balance are established to indicate tentative plans for financial resource utilization in a future period. Designations of fund balance by purpose are as follows:

	General Fund	Special Revenue Funds	Capital Projects Funds
Self insurance and other insurance matters	\$ 1,923,270	\$ -	\$ -
Emerging Issues	764,602	-	-
Accrued compensation	579,738	-	-
Completion of other approved specified projects and activities	-	547,349	969,282
Data processing	292,682	-	-
Court facilities	288,910	-	-
Nursing home	37,500	-	-
Recreation	94,308	-	-
Donations	119,721	-	-
	<u>\$ 4,100,731</u>	<u>\$ 547,349</u>	<u>\$ 969,282</u>

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2002

Note 10. Fund Equity Balances (Continued)

At June 30, 2002, the following funds had a deficit fund balance:

City Federal/State Projects Fund	\$ 199,939
Community Development Block Grant Fund	1,379
Comprehensive Service Act Fund	155,839
Home Investment Trust Special Revenue Fund	17,169

Note 11. Segment Information for Enterprise Funds

The City maintains a utility, which provides water, sewer, and wastewater services, a solid waste management operation, which operates a sanitary landfill and a regional airport. Segment information for the Water Fund, Sewer Fund, Solid Waste Management Fund, and Airport Fund for the fiscal year ended June 30, 2002, is as Follows:

	Water Fund	Sewer Fund	Airport Fund	Solid Waste Management Fund	Total
Operating revenues	\$ 8,312,263	\$ 12,705,123	\$ 1,187,905	\$ 4,842,010	\$ 27,047,301
Depreciation and amortization	1,609,740	3,156,787	1,406,045	814,662	6,987,234
Operating income (loss)	1,150,207	3,768,131	(1,829,165)	454,840	3,544,013
Governmental grants	-	38,500	134,947	198,878	372,325
Transfers, net	(401,998)	(328,346)	613,535	(1,205,438)	(1,322,247)
Change in net assets	60,549	8,569,182	165,806	(665,668)	8,129,869
Current capital contributions	-	6,371,216	1,230,962	-	7,602,178
Capital assets additions	2,105,653	12,116,830	2,894,439	1,817,269	18,934,191
Net working capital	4,288,537	(830,780)	(1,305,000)	6,084,412	8,237,169
Total assets	51,885,525	151,326,364	26,146,852	18,834,780	248,193,521
Long-term portion of bonds payable from operating revenues	18,811,611	82,172,884	2,480,339	8,394,099	111,858,933
Total net assets	30,818,183	62,233,003	22,030,848	6,529,003	121,611,037

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements

As of June 30, 2002

Note 12. Employee Benefit Plans

Defined Benefits Pension Plan:

Plan Description: The City contributes to the Virginia Retirement System ("VRS"), an agent and cost-sharing multiple-employer defined pension plan administered by the Virginia Retirement System ("the System"). In addition, professional and non-professional employees of the schools are covered by the VRS. Professional employees participate in a VRS statewide teacher cost sharing pool, and non-professional employees participate as a separate group in the agency multiple-employer retirement system.

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service (age 60 for participating law enforcement officers and firefighters) and at age 50 with 30 years of service for participating employees (age 50 with 25 years for participating law enforcement officers and firefighters). Employees who retire with a reduced benefit at age 55 (age 50 for participating law enforcement officers and firefighters) with at least five years of credited service are entitled to an annual retirement benefit payable monthly for life in an amount equal to 1.7 percent of their average final salary ("AFS") for each year of credited service. An optional reduced retirement benefit is available to members of VRS as early as age 50 with 10 years of credited service. In addition, retirees qualify for annual cost-of-living increases beginning in their second year of retirement. AFS is defined as the highest consecutive 36 months of salary. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. Participating law enforcement officers and firefighters may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits.

Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the State legislature. The system issues a publicly available Comprehensive Annual Financial Report that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing the System at P.O. Box 2500, Richmond, Virginia 23218-2500.

Funding Policy: Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their annual salary to the VRS. The employer has assumed this 5% member contribution. In addition, the City and the Schools are required to contribute the remaining amounts necessary to fund their participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The City's contribution rate for the fiscal year ended 2002 was 15.25% of annual covered payroll. The Schools' contribution rates for the fiscal year ended 2002 were 8.67% for professional and 9.70% for non-professional employees. Both the City's and the Schools' contribution rates include the employee's share of 5% paid by the employer.

Annual Pension Cost: For 2002, the City's and Schools' annual pension costs of \$6,219,909 and \$3,663,580 respectively, were equal to their required and actual contributions. The required contributions were determined as part of the June 30, 2001 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included: (a) 8% investment rate of return; (b) projected salary increases of 4.25% and 6.10% per year (depending on the employee's service and classification (general employee or uniformed officer), and (c) 3% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3%. The actuarial value of the City's and Schools' assets is equal to the modified market value of assets. This method was determined using techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The City's and Schools' unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis within a period of 27 years or less.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2002

Note 12. Employee Benefit Plans (Continued)

Trend Information for the City of Lynchburg

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2002	\$ 6,219,909	100%	None
June 30, 2001	6,251,208	100%	None
June 30, 2000	6,929,810	100%	None

Trend Information for the Lynchburg City Schools

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2002	\$ 3,663,580	100%	None
June 30, 2001	4,766,388	100%	None
June 30, 2000	5,549,454	100%	None

Post Retirement Health Care Benefits:

In addition to providing pension benefits, City policy allows the City to provide certain health care benefits to retired full-time employees. Substantially all of the City's employees may become eligible for these benefits if they reach normal retirement age while working for the City. At June 30, 2002, there were 441 employees eligible to receive these benefits. The cost of providing these benefits is recognized as paid and was approximately \$1,699,852 for 2002.

Note 13. Deferred Compensation Plan

The City offers an approved deferred compensation plan (the "Plan") pursuant to Section 457 of the Internal Revenue Code. All City employees are eligible to participate and may defer 25% of their gross income up to a maximum of \$11,000 per year. The City contributes \$5 per pay period for eligible employees. The compensation deferred is not available to employees until termination, retirement, death or an unforeseeable emergency.

Transactions related to the Plan for the year ended June 30, 2002 are as follows:

Balance, July 1, at market	\$ 10,919,484
Employee contributions	1,015,456
City contribution	89,696
Investment earnings, net of fees	(1,065,234)
Employee withdrawals	<u>(823,070)</u>
Balance, June 30, at market	<u>\$ 10,136,332</u>

In accordance with GAAP, these amounts are no longer recorded as an Agency Fund of the City.

Lynchburg City Schools offers a 403(b) plan for selected employees (full-time, biweekly paid, and classified). The Schools contributes \$5 per pay period. Funds are in separate individual accounts.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2002

Note 14. Related Party Transactions

Lynchburg Redevelopment and Housing Authority:

During the year ended June 30, 2002, the City provided \$251,052 to the Lynchburg Redevelopment and Housing Authority ("LRHA") for specific projects from the Community Development Block Grant fund (reported in Special Revenue Funds).

In prior years the City provided \$3,810,909 in Urban Development Action Grant funds to LRHA for the development of a hotel and convention facility. LRHA loaned \$13,810,909 to certain parties for the construction of this facility in downtown Lynchburg. The loan is secured by a mortgage on all land, building, plant, fixtures, equipment and other assets of the developer. The loan is for a term of 45 years and bears interest at 8%. Interest only is due for the first 5 years and the principal is due over the next 40 years in equal installments only if sufficient net cash flow (as defined) is available. Any funds received by LRHA as payment of interest or principal are to be remitted to the City.

Additionally, LRHA has established a \$250,000 deposit in a local financial institution to provide a pool for potential loan defaults. During the year LRHA remitted to the City \$14,127 in interest earnings on the loan loss pool.

Note 15. Leases

Lessee:

The City leases certain equipment under operating lease agreements and certain equipment and vehicles under noncancellable capital lease agreements. For governmental funds the net present value of obligations under capital lease agreements of \$2,396,609 is included in the government-wide statements.

Operating leases have original terms from one month to 60 months and in certain instances capital leases allow cancellation if funds are not appropriated for each year's payments.

At June 30, 2002, future minimum lease payments due under capital and operating leases with initial or remaining noncancellable lease terms in excess of one year are as follows:

Fiscal Year	Capital Leases		Operating Leases	
	Governmental Obligation	Component Unit	Governmental Obligation	Component Unit
2003	\$ 344,397	\$ 840,661	\$ 633,592	\$ 117,112
2004	344,397	599,513	72,439	67,289
2005	344,397	397,741	51,079	50,133
2006	344,397	250,756	45,294	39,789
2007	344,397	90,267	20,097	-
Thereafter	1,377,585	-	-	-
Total minimum lease payments	3,099,570	2,178,938	\$ 822,501	\$ 274,323
Less amount representing interest	702,961	131,333		
Present value of net minimum lease payments	\$ 2,396,609	\$ 2,047,605		

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2002

Note 15. Leases (Continued)

For the year ended June 30, 2002, the City incurred rental expenditures of \$615,474 and \$4,203 in the General Fund and Special Revenue Funds, respectively, and rental expense of \$8,036 in the Enterprise Fund. For the year ended June 30, 2002, the Schools incurred rental expenditures of \$216,961 under operating leases.

Lessor:

The City is the lessor of certain airport facilities and other buildings under various operating leases for terms ranging from one to nine years.

Future minimum lease payments to be received under noncancellable operating leases as of June 30, 2002 are as follows:

<u>Year ending June 30</u>	
2003	\$ 258,794
2004	253,512
2005	166,782
2006	170,118
2007	151,438
Thereafter	<u>418,769</u>
Total future minimum rentals	<u>\$ 1,419,413</u>

The amounts above do not include contingent rentals, which may be received under certain leases based on usage and sales. Rental income for the year ended June 30, 2002, approximated \$1,243,623 including \$193,769 in contingent rentals.

Note 16. Risk Management

The Risk Management Programs of the City are as follows:

Worker's Compensation: The City is self-insured for worker's compensation claims. All settled claims are paid through the General Fund. The liability for worker's compensation claims, including an estimate of incurred but not reported claims based on prior experience, to be paid in the next fiscal year and in future years is reflected in the statement of net assets. Total claims paid for the year ended June 30, 2002 amounted to approximately \$552,695.

General Liability and Other: The City is self-insured for general liability and automobile liability claims and purchases insurance coverage for risks related to property, boiler and machinery, surety bonds, and airport liability. City property is insured up to a limit of \$220,878,380 per occurrence. Other liability policies provide up to \$60,000,000 coverage in the aggregate. Police professional liability and public officials' liability claims with a \$250,000 deductible per claim are covered through a policy with the States Self Insurance Risk Group. Total premiums for purchased coverage for the year ended June 30, 2002 were approximately \$375,750. The City has designated a portion of its fund balance in the General Fund to fund future general liability claims. City management believes any incurred but not reported claims at June 30, 2002 would be insignificant.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2002

Note 16. Risk Management (Continued)

Healthcare: The City's professionally administered self-insurance program provides healthcare coverage for employees and retirees of the City on a cost-plus basis. Dependents of employees and retirees are also covered by the program provided they pay a premium to the City. Under the program, the City is obligated for claims payments and administrative costs. A stop loss insurance contract executed with an insurance carrier covers claims in excess of \$150,000 per covered individual per contract year. For the years ended June 30, 2002 and 2001, total claims expense of approximately \$5,738,877 and \$4,461,381 respectively, which did not exceed the stop loss provisions, was incurred. Administrative fees and stop loss premiums for the years ended June 30, 2002 and 2001 totaled approximately \$489,321 and \$826,048 respectively. Estimated incurred but not reported claims at June 30, 2002 and 2001 based on prior experience, totaled \$532,415 and \$450,000 respectively and has been funded by the City.

Changes in aggregate liabilities were as follows:

	Fiscal Year	Beginning of Fiscal Year Liability	Current Year Claims and Reserves	Claim Payments	End of Fiscal Year Liability
Workers Compensation	2001	\$ 460,681	\$ (7,014)	\$ 146,705	\$ 306,962
	2002	306,962	853,101	552,695	607,368
General/Automotive Liability	2001	11,400	146,549	144,060	13,889
	2002	13,889	141,392	126,392	28,889
Healthcare	2001	433,431	4,477,950	4,461,381	450,000
	2002	450,000	5,821,292	5,738,877	532,415

Note 17. Joint Venture

In April 1996, the City entered into an intergovernmental agreement with the Counties of Amherst and Bedford and the City of Bedford for the construction, financing, equipping and operating of a Regional Radio Communication System. The agreement provides for the creation of the Central Virginia Radio Communication Board, which is responsible for overseeing the management, operation and administration of the project. The project was financed by the issuance of lease revenue bonds by the Industrial Development Authority of Amherst County in the amount of \$9,931,000 with interest at 5.72%, and the leasing of the project to the participating jurisdictions. Each participating jurisdiction maintains a leasehold interest in the project and shares costs of operation and maintenance equal to the jurisdiction's payment percentage as defined in the agreement. The City's participating interest is 33.10%. Future minimum lease payments are included in the government-wide financial statements in the following amounts:

Fiscal Year	
2003	\$ 210,275
2004	222,475
2005	235,382
2006	249,038
2007	263,488
Thereafter	1,215,951

Separate financial statements for this joint venture are not available.

Note 18. Commitments and Contingencies

Combined Sewer Overflow

In October 1989, the City completed its update of the combined sewer overflow ("CSO") segment of the 1978 study regarding system inflow/infiltration. The purpose of this study update was to provide a cost-effective plan for CSO control. After detailed evaluation of a wide variety of control alternatives, this study update/plan concluded that sewer separation is the most cost-effective control option. Updated estimates performed in 2000 indicate that the total remaining cost of CSO control, including related work such as sewer replacement/overhaul and street paving will total approximately \$260,000,000 in 2002 dollars. On August 19, 1994, the Virginia Department of Environmental Quality ("VDEQ") issued the City's sewage discharge permit and consent special order continuing the terms and conditions that will govern implementation of the City's CSO control plan. The permit requires the City to implement the CSO control plan and to undertake certain combined sewer management practices designed to minimize CSO discharge until the sewer system is completely separated. The order establishes a compliance schedule and project priority for implementation of the CSO control plan.

The compliance schedule does not contain fixed dates for implementing the CSO control plan, but rather provides for implementation based on criteria reflecting the limits of the City's financial capability. The Special Order requires the City to maintain a sewer operating fund debt coverage ratio within a range of 1.1 to 1.5 and reserve funds to equal no more than 25 percent of the subsequent years' budgeted operating expenditures. The City is currently implementing the CSO control plan in accordance with the requirements of its permit and consent order. Further, the City is required by the consent order to submit annual reports, including independent rate consultant reports, to VDEQ on the City's compliance with the order and its progress with CSO control plan implementation.

Construction and Related Commitments

At June 30, 2002, the City had outstanding commitments under various construction contracts totaling approximately \$9,523,979.

Grant Programs

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as to being appropriate expenditures under terms of the grants. Such audits could lead to reimbursement to the grantor agencies. City management believes disallowances, if any, would not be material to the financial position of the City at June 30, 2002.

Note 19. Subsequent Events

On July 9, 2002, the City approved the issuance of \$15,000,000 in general obligation bond anticipation notes for the purpose of establishing a revolving line of credit. The funds will primarily be used for water and sewer improvements, although funds may be used for other financing purposes as deemed necessary by the City. The interest is calculated at a per annum rate equal to .375% over the Tax Advantaged Rate, with interest paid monthly, and the outstanding principal is payable at maturity, which shall not exceed five years from the closing date. As of the date of this report, the total outstanding balance was \$506,000.

On November 7, 2002, the City issued a VPSA loan in the amount of \$7,500,000. The effective interest rate is 3%, with a maturity date of July 15, 2023. Payments on the loan are payable semiannually in January and July.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements

As of June 30, 2002

Note 20. Adjustment to Beginning Net Assets

The City expensed interest cost in a prior year related to the construction of the Regional Wastewater Treatment Plant. Due to several construction and operational problems, the construction extended its completion date by approximately 18-24 months, causing the final accrued interest during construction to increase from approximately \$519,000 to around \$1,181,797. Because of the impact the additional accrued interest had on the financial position of the Sewer Operating Fund, the City determined that this interest during construction should be capitalized as a construction expense and amortized over the life of the asset.

	Sewer Fund
Beginning net assets	\$ 52,482,024
Capitalized interest adjustment	<u>1,181,797</u>
Beginning net assets, restated	<u><u>\$ 53,663,821</u></u>

CITY OF LYNCHBURG, VIRGINIA

Required Supplemental Information

Schedule of Funding Progress for Defined Benefit Pension Plan

As of June 30, 2002

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
A. City of Lynchburg						
June 30, 2001	\$ 147,024,102	\$ 162,321,403	\$ 15,297,301	90.58 %	\$ 39,469,110	38.76 %
June 30, 2000	134,003,439	145,588,951	11,585,512	92.04	36,959,528	31.35
June 30, 1999	115,802,628	138,243,780	22,441,152	83.77	35,031,319	64.06
B. Lynchburg City Schools Employees:						
June 30, 2001	\$ 8,043,718	\$ 7,330,932	\$ (712,786)	109.72 %	\$ 2,986,147	(23.87) %
June 30, 2000	7,442,286	6,669,864	(772,422)	111.58	2,554,230	(30.24)
June 30, 1999	6,469,432	6,933,447	464,015	93.31	2,611,325	17.77

Other Supplemental Information

CITY OF LYNCHBURG, VIRGINIA

Nonmajor Governmental Funds

Nonmajor governmental funds consist of special revenue and capital projects funds.

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes. Each fund is established on a functional basis and may include one or more grants or other funding sources.

Funds in this category include:

- City Federal/State Aid Projects Fund – Accounts for the City's various federal and state grants for such purposes as building projects, certain social service and community development programs, and public safety.
- Community Development Block Grant Fund – Accounts for revenues received from the Department of Housing and Urban Development which are used for various development projects to accomplish the goals of the block grant program.
- Title XX Grant Fund – Accounts for federal and state grants received for adult day care facilities.
- Museum System Fund – Accounts for revenues received in support of the City's various museums.
- Lynchburg Business Development Centre Fund – Accounts for revenues received to support a local business incubator and for monies received from the Economic Development Administration for a revolving loan fund and certain other assistance.
- Detention Home Fund – Accounts for revenues received and expenditures made to support the operations of the City's Juvenile Detention Home.
- Law Library Fund – Accounts for fees received to support the operation of the Law Library.
- Highway Projects Grant Fund – Accounts for federal and state grants received for various highway projects.
- Recycling Program Fund – Accounts for revenues received from the City's Drop-off Recycling Program.
- Forfeited Assets Fund – Accounts for revenues received from the sale of confiscated assets which are related to illegal drug sales and are used for law enforcement expenditures for drug related activities.
- Lynchburg Expressway Appearance Fund – Accounts for the revenues and expenditures associated with beautification of the Lynchburg Expressway Area.
- Comprehensive Services Act Fund – Accounts for revenues received and expenditures made to support the Comprehensive Services Act for At-Risk Youth and Families adopted by the Virginia General Assembly.
- E-911 Fund - Accounts for revenues received to support the operations and capital expenditures of the City's E-911 system.

(Continued)

CITY OF LYNCHBURG, VIRGINIA

Nonmajor Governmental Funds

Funds in this category include: (continued)

- Home Investment Trust Fund – Accounts for revenues received from the Department of Housing and Urban Development for support of affordable housing needs in the City.
- Central Virginia Radio Board Fund – Accounts for revenues received to support the operations and capital expenditure of the Central Virginia Radio Board.
- Partners In Emergency Response Fund – Accounts for revenues received to support the Occupational Safety Health Administration (OSHA) requirement for rescue in confined places.
- Technology Fund – Accounts for revenues received to support the acquisition of computer equipment and maintaining network equipment, servers, and the A/S 400.

Capital Projects Funds account for all resources used for the acquisition or construction of capital facilities except those financed by Enterprise Funds and federal and state grants.

- City Capital Projects Fund - Accounts for budgeted capital projects approved by City Council. The major source of this fund's resources is bond proceeds.

CITY OF LYNCHBURG, VIRGINIA

**Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2002**

	Special Revenue Funds	Capital Project Funds	Total Nonmajor Governmental Funds
Assets			
Cash and cash equivalents	\$ 2,213,202	\$ 1,074,639	\$ 3,287,841
Receivables:			
Other	643,517	-	643,517
Due from other funds	-	685,133	685,133
Due from component units	155,000	-	155,000
Due from other governments	1,735,982	200,000	1,935,982
Total assets	\$ 4,747,701	\$ 1,959,772	\$ 6,707,473
Liabilities and fund balances			
Liabilities:			
Accounts payable	\$ 700,900	\$ 541,925	\$ 1,242,825
Accrued liabilities	98,508	-	98,508
Retainage payable	1,420	57,357	58,777
Due to other governments	6,598	82,761	89,359
Due to other funds	1,668,265	-	1,668,265
Deferred revenue	823,544	200,000	1,023,544
Total liabilities	3,299,235	882,043	4,181,278
Fund balances:			
Reserved for:			
Encumbrances	299,878	108,447	408,325
Designated	547,349	969,282	1,516,631
Unreserved:			
Undesignated	601,239	-	601,239
Total fund balances	1,448,466	1,077,729	2,526,195
Total liabilities and fund balances	\$ 4,747,701	\$ 1,959,772	\$ 6,707,473

CITY OF LYNCHBURG, VIRGINIA

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

Year Ended June 30, 2002

	Special Revenue Funds	Capital Project Funds	Total Nonmajor Governmental Funds
Revenues			
Intergovernmental	\$ 10,293,917	\$ -	\$ 10,293,917
Revenue from use of money and property	257,622	-	257,622
Charges for services	3,411,299	-	3,411,299
Miscellaneous	414,558	71,710	486,268
Total revenues	<u>14,377,396</u>	<u>71,710</u>	<u>14,449,106</u>
Expenditures			
Current:			
Education	3,644	-	3,644
Health and human services	3,894,125	-	3,894,125
Public safety	5,959,194	-	5,959,194
Public works	114,245	-	114,245
Community development	3,267,646	-	3,267,646
Cultural and recreational	80,120	-	80,120
Non-departmental	-	50	50
Capital outlay	492,206	6,055,871	6,548,077
Principal retirement	1,925,687	-	1,925,687
Interest payments	475,254	-	475,254
Total expenditures	<u>16,212,121</u>	<u>6,055,921</u>	<u>22,268,042</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,834,725)</u>	<u>(5,984,211)</u>	<u>(7,818,936)</u>
Other financing sources (uses)			
Transfers in	925,147	1,669,703	2,594,850
Transfer out	(321,665)	(13,125)	(334,790)
Total other financing sources (uses)	<u>603,482</u>	<u>1,656,578</u>	<u>2,260,060</u>
Net change in fund balances	<u>(1,231,243)</u>	<u>(4,327,633)</u>	<u>(5,558,876)</u>
Fund balance - beginning	<u>2,679,709</u>	<u>5,405,362</u>	<u>8,085,071</u>
Fund balance - ending	<u>\$ 1,448,466</u>	<u>\$ 1,077,729</u>	<u>\$ 2,526,195</u>

City of Lynchburg, Virginia
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2002

	City Federal/State Aid Projects Fund	Community Development Block Grant Fund	Title XX Grant Fund	Museum System Fund	Lynchburg Business Development Centre Fund	Detention Home Fund	Law Library Fund	Highway Projects Grant Fund	Recycling Program Fund
Assets									
Cash and cash equivalents	\$ 109,240	\$ -	\$ -	\$ 19,553	\$ 171	\$ 97,162	\$ 17,060	\$ 225,644	\$ 53,311
Other receivables	93,398	214,217	10,465	-	-	125,623	-	33,769	-
Due from component units	-	-	-	-	155,000	-	-	-	-
Due from other governments	299,458	251,140	-	-	213	47,679	-	435,785	-
Total assets	\$ 502,096	\$ 465,357	\$ 10,465	\$ 19,553	\$ 155,384	\$ 270,464	\$ 17,060	\$ 695,198	\$ 53,311
Liabilities and fund balances									
Liabilities:									
Accounts payable	\$ 184,721	\$ 6,289	\$ -	\$ 713	\$ -	\$ 28,094	\$ 13,538	\$ 1,380	\$ -
Accrued liabilities	36,790	1,296	-	-	-	59,395	-	-	-
Retainage payable	1,420	-	-	-	-	-	-	-	-
Due to other governments	-	6,598	-	-	-	-	-	-	-
Due to other funds	410,706	315,531	1,343	-	30,000	128,250	-	-	-
Deferred revenue	88,398	137,022	5,519	-	-	-	-	612,605	-
Total liabilities	\$ 702,035	\$ 465,736	\$ 6,862	\$ 713	\$ 30,000	\$ 215,739	\$ 13,538	\$ 613,985	\$ -
Fund balances:									
Reserved for:									
Encumbrances	75,589	5,240	-	-	-	5,260	-	-	-
Unreserved:									
Designated	77,545	17,415	1,839	-	-	90,483	-	-	-
Undesignated	(353,073)	(24,034)	1,764	18,840	125,384	(41,018)	3,522	81,213	53,311
Total fund balances	\$ (199,939)	\$ (1,379)	\$ 3,603	\$ 18,840	\$ 125,384	\$ 54,725	\$ 3,522	\$ 81,213	\$ 53,311
Total liabilities and fund balances	\$ 502,096	\$ 465,357	\$ 10,465	\$ 19,553	\$ 155,384	\$ 270,464	\$ 17,060	\$ 695,198	\$ 53,311

City of Lynchburg, Virginia
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2002

	Forfeited Assets Fund	Lynchburg Expressway Appearance Fund	Compre- hensive Service Act Fund	E-911 Fund	Home Investment Trust Fund	Central Virginia Radio Board Fund	Partners In Emergency Response Fund	Technology Fund	Total Nonmajor Special Revenue Funds
Assets									
Cash and cash equivalents	\$ 87,315	\$ 13,084	\$ -	\$ 813,898	\$ -	\$ 68,453	\$ 50,000	\$ 658,311	\$ 2,213,202
Other receivables	-	-	-	166,045	-	-	-	-	643,517
Due from component units	-	-	-	-	-	-	-	-	155,000
Due from other governments	-	-	571,714	-	-	-	-	-	1,735,982
Total assets	\$ 87,315	\$ 13,084	\$ 571,714	\$ 979,943	\$ 129,993	\$ 68,453	\$ 50,000	\$ 658,311	\$ 4,747,701
Liabilities and fund balances									
Liabilities:									
Accounts payable	\$ -	\$ -	\$ 152,763	\$ 26,267	\$ 290	\$ 48,302	\$ -	\$ 238,543	\$ 700,900
Accrued liabilities	-	-	1,027	-	-	-	-	-	98,508
Retainage payable	-	-	-	-	-	-	-	-	1,420
Due to other governments	-	-	-	-	-	-	-	-	6,598
Due to other funds	-	-	573,753	61,800	146,872	-	-	-	1,668,265
Deferred revenue	-	-	-	-	-	-	-	-	823,544
Total liabilities	-	-	727,553	88,067	147,162	48,302	-	238,543	3,299,235
Fund balances:									
Reserved for:									
Encumbrances	-	3,040	-	8,004	110	202,635	-	-	299,878
Unreserved:									
Designated	87,315	-	101,242	145,826	25,684	-	-	-	547,349
Undesignated	-	10,044	(257,081)	738,046	(42,963)	(182,484)	50,000	419,788	601,239
Total fund balances	87,315	13,084	(155,839)	891,876	(17,169)	20,151	50,000	419,788	1,448,466
Total liabilities and fund balances	\$ 87,315	\$ 13,084	\$ 571,714	\$ 979,943	\$ 129,993	\$ 68,453	\$ 50,000	\$ 658,311	\$ 4,747,701

City of Lynchburg, Virginia
Combining Statement of Revenues,
Expenditures and Changes in Fund
Balances
Nonmajor Special Revenue Funds
Year Ended June 30, 2002

	City Federal/State Aid Projects Fund	Community Development Block Grant Fund	Title XX Grant Fund	Museum System Fund	Lynchburg Business Development Centre Fund	Detention Home Fund	Law Library Fund	Highway Projects Grant Fund	Recycling Program Fund
Revenues									
Intergovernmental	\$ 3,120,414	\$ 1,285,522	\$ 49,193	\$ -	\$ -	\$ 1,269,319	\$ -	\$ 1,530,846	\$ -
Revenue from use of money and property	10,821	-	-	-	37,650	-	-	-	-
Charges for services	313,390	40,492	-	10,254	-	1,353,341	56,825	67,295	-
Miscellaneous	98,237	69,509	6,888	23,090	-	(38,232)	1,876	57,217	23,569
Total revenues	3,542,862	1,395,523	56,081	33,344	37,650	2,584,428	58,701	1,655,358	23,569
Expenditures									
Current:									
Education	3,644	-	-	-	-	-	-	-	-
Health and human services	585,406	-	62,197	-	-	-	-	-	-
Public safety	2,153,481	-	-	-	-	2,278,002	-	-	-
Public works	2,903	-	-	-	-	-	-	96,640	2,870
Community development	1,160,057	1,368,161	-	-	37,650	-	-	-	-
Cultural and recreational	13,047	-	-	11,256	-	-	55,817	-	-
Capital outlay	-	-	-	-	-	-	-	492,206	-
Debt service:									
Principal retirement	-	-	-	-	-	127,798	-	1,555,000	-
Interest payments	-	-	-	-	-	145,872	-	128,516	-
Total expenditures	3,918,538	1,368,161	62,197	11,256	37,650	2,551,672	55,817	2,272,362	2,870
Excess (deficiency) of revenues over (under) expenditures	(375,676)	27,362	(6,116)	22,088	-	32,756	2,884	(617,004)	20,699
Other financing sources (uses)									
Transfers in	174,318	-	-	-	-	-	-	-	-
Transfer out	(107,430)	-	-	(22,142)	-	(1,135)	(26,150)	-	(7,000)
Total other financing sources (uses)	66,888	-	-	(22,142)	-	(1,135)	(26,150)	-	(7,000)
Net change in fund balances	(308,788)	27,362	(6,116)	(54)	-	31,621	(23,266)	(617,004)	13,699
Fund balance - beginning	108,849	(28,741)	9,719	18,894	125,384	23,104	26,788	698,217	39,612
Fund balance - ending	\$ (199,939)	\$ (1,379)	\$ 3,603	\$ 18,840	\$ 125,384	\$ 54,725	\$ 3,522	\$ 81,213	\$ 53,311

City of Lynchburg, Virginia
Combining Statement of Revenues,
Expenditures and Changes in Fund
Balances
Nonmajor Special Revenue Funds
Year Ended June 30, 2002

	Forfeited Assets Fund	Lynchburg Expressway Appearance Fund	Compre- hensive Service Act Fund	E-911 Fund	Home Investment Trust Fund	Central Virginia Radio Board Fund	Partners In Emergency Response Fund	Technology Fund	Total Nonmajor Special Revenue Funds
Revenues									
Intergovernmental	\$ 37,653	\$ -	\$ 2,207,810	\$ 54,910	\$ 738,250	\$ -	\$ -	\$ -	\$ 10,293,917
Revenue from use of money and property	1,778	-	-	186,311	-	-	-	11,062	257,622
Charges for services	-	-	-	963,070	-	528,340	78,292	-	3,411,299
Miscellaneous	-	-	130,074	-	-	-	-	42,330	414,558
Total revenues	39,431	-	2,337,884	1,214,291	738,250	528,340	78,292	53,392	14,377,396
Expenditures									
Current:									
Education	-	-	-	-	-	-	-	-	3,644
Health and human services	-	-	3,246,522	-	-	-	-	-	3,894,125
Public safety	24,412	-	-	550,197	-	537,741	50,072	365,289	5,959,194
Public works	-	11,832	-	-	-	-	-	-	114,245
Community development	-	-	-	-	701,778	-	-	-	3,267,646
Cultural and recreational	-	-	-	-	-	-	-	-	80,120
Capital outlay	-	-	-	-	-	-	-	-	492,206
Debt service:									
Principal retirement	-	-	-	242,889	-	-	-	-	1,925,687
Interest payments	-	-	-	200,866	-	-	-	-	475,254
Total expenditures	24,412	11,832	3,246,522	993,952	701,778	537,741	50,072	365,289	16,212,121
Excess (deficiency) of revenues over (under) expenditures	15,019	(11,832)	(908,638)	220,339	36,472	(9,401)	28,220	(311,897)	(1,834,725)
Other financing sources (uses)									
Transfers in	-	-	616,645	-	-	-	-	134,184	925,147
Transfer out	(47,867)	-	(4,941)	(105,000)	-	-	-	-	(321,665)
Total other financing sources (uses)	(47,867)	-	611,704	(105,000)	-	-	-	134,184	603,482
Net change in fund balances	(32,848)	(11,832)	(296,934)	115,339	36,472	(9,401)	28,220	(177,713)	(1,231,243)
Fund balance - beginning	120,163	24,916	141,095	776,537	(53,641)	29,552	21,780	597,481	2,679,709
Fund balance - ending	\$ 87,315	\$ 13,084	\$ (155,839)	\$ 891,876	\$ (17,169)	\$ 20,151	\$ 50,000	\$ 419,768	\$ 1,448,466

CITY OF LYNCHBURG, VIRGINIA

Discretely Presented Component Unit - Lynchburg City Schools

The Lynchburg City Schools operates the eleven elementary, the three middle, and the two high schools in the City. The funds and account groups of the schools are described below:

- School Operating Fund - Accounts for the primary operating activities of the Lynchburg City Schools.
- School Federal Aid Projects Fund - Accounts for the various federal and state grants for the educational purposes of the Lynchburg City Schools.
- School Cafeteria Fund - Accounts for revenues received from the sale of food in the Lynchburg City Schools.
- School Capital Projects Fund - Accounts for budgeted capital projects approved by the Lynchburg City Schools related to educational activities.
- Permanent Fund – Accounts for funds invested with the Greater Lynchburg Community Trust for the support of education.

City of Lynchburg, Virginia

Discretely Presented Component Unit - Lynchburg City Schools
Combining Balance Sheet
June 30, 2002

	School Operating Fund	School Federal Aid Fund	School Cafeteria Fund	School Capital Projects Fund	Permanent Fund	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 9,034,654	\$ (87,843)	\$ 44,299	\$ 1,980,961	\$ -	\$ 10,972,071
Cash held by others	-	-	117,160	-	-	117,160
Investments	-	-	-	1,654,477	66,890	1,721,367
Receivables	71,359	375,335	252,405	-	-	699,099
Due from other governments	799,395	-	-	-	-	799,395
Due from Laurel Regional Program	226,776	-	-	-	-	226,776
Inventory	-	-	79,462	-	-	79,462
Prepaid expenses	58,288	-	-	-	-	58,288
Restricted cash in bank	42,078	-	-	-	-	42,078
Total assets	\$ 10,232,550	\$ 287,492	\$ 493,326	\$ 3,635,438	\$ 66,890	\$ 14,715,696
Liabilities and fund balances						
Liabilities:						
Accounts payable	\$ 765,745	\$ -	\$ -	\$ 655,100	\$ -	\$ 1,421,845
Due to other funds	189,669	-	-	-	-	189,669
Accrued liabilities	6,923,291	484,456	312	-	-	7,408,059
Retainage payable	-	-	-	473,878	-	473,878
Deferred revenue	-	116,500	-	-	-	116,500
Total liabilities	7,878,705	600,956	312	1,129,978	-	9,609,951
Fund balances:						
Reserved for:						
Encumbrances	59,587	6,278	87,617	-	-	153,482
Inventory	-	-	79,462	-	-	79,462
Outstanding construction contracts	-	-	-	7,757,634	-	7,757,634
Unreserved						
Undesignated	2,294,258	(319,742)	325,935	(5,252,174)	66,890	(2,884,833)
Total fund balances	2,353,845	(313,464)	493,014	2,505,460	66,890	5,105,745
Total liabilities and fund balances	\$ 10,232,550	\$ 287,492	\$ 493,326	\$ 3,635,438	\$ 66,890	
Amounts reported for governmental activities in the statement of net assets are different because:						
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds						9,357,352
Prepaid asset resulting from the annual payment of tuition to the Laurel Regional Program is reported in the statement of net assets						1,000,000
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds						(2,583,383)
Net assets of School Component Unit activities						\$ 12,879,714

CITY OF LYNCHBURG, VIRGINIA

Discretely Presented Component Unit - Lynchburg City Schools
Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
Year Ended June 30, 2002

	School Operating Fund	School Federal Aid Fund	School Cafeteria Fund	School Capital Projects Fund	Permanent Fund	Total Governmental Funds
Revenues						
Intergovernmental	\$ 34,896,406	\$ 5,129,015	\$ 1,616,114	\$ 169,780	\$ -	\$ 41,811,315
Revenue from use of money and property	4,807	-	1,389	4,901	1,363	12,460
Charges for services	394,267	419,040	930,306	-	-	1,743,613
Miscellaneous	206,984	136,554	6,714	4,995	-	355,247
Contributions	-	-	-	-	10,000	10,000
Realized Capital loss on investments	-	-	-	-	(1,382)	(1,382)
Unrealized Capital loss on investments	-	-	-	-	(4,033)	(4,033)
Total revenues	35,502,464	5,684,609	2,554,523	179,676	5,948	43,927,220
Expenditures						
Educations:						
Instruction	48,509,600	4,571,439	-	-	-	53,433,978
Administration, attendance and health	1,830,300	85,803	-	-	-	1,563,164
Pupil transportation services	2,903,845	-	-	-	-	2,903,845
Operations and maintenance	6,571,305	35,708	2,430,096	-	-	9,037,109
Administrative fees	-	-	-	-	471	471
Bank fees	-	-	-	-	347	347
Capital outlay	2,994,244	816,948	73,424	9,689,957	-	13,574,573
Debt service:						
Principal retirement	1,929,342	21,758	-	-	-	1,951,100
Interest payments	1,696,173	17,079	-	234	-	1,713,486
Total expenditures	66,434,809	5,548,735	2,503,520	9,690,191	818	84,178,073
Excess (deficiency) of revenues over (under) expenditures	(30,932,345)	135,874	51,003	(9,510,515)	5,130	(40,250,853)
Other financing sources (uses)						
Proceeds from debt issuances	-	-	-	9,603,744	-	9,603,744
Proceeds from capital lease	1,000,000	-	-	-	-	1,000,000
Transfers from primary government	31,162,089	-	-	-	-	31,162,089
Transfers in	-	-	-	1,363,986	-	1,363,986
Transfers out	(1,063,986)	-	-	-	-	(1,063,986)
Total other financing sources (uses)	31,098,103	-	-	10,967,730	-	42,065,833
Net change in fund balances	165,758	135,874	51,003	1,457,215	5,130	1,814,980
Fund balance - beginning	2,188,087	(449,338)	442,011	1,048,245	61,760	3,290,765
Fund balance - ending	\$ 2,353,845	\$ (313,464)	\$ 493,014	\$ 2,505,460	\$ 66,890	\$ 5,105,745

City of Lynchburg, Virginia

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Discretely Presented School Component Unit to the Statement of Activities
Year Ended June 30, 2002

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ 1,814,980
--	--------------

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	4,864,144
--	-----------

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items.	<u>951,100</u>
---	----------------

Change in net assets of governmental activities	<u>\$ 7,630,224</u>
---	---------------------

City of Lynchburg, Virginia

Discretely Presented Component Unit - Lynchburg City Schools

School Operating Fund

Schedule of Revenues, Expenditures and Other Financing Sources (Uses) -

Budget and Actual (Non-GAAP Budgetary Basis)

Year Ended June 30, 2002

	Revised Budget	Actual	Variance Positive (Negative)
REVENUES			
Intergovernmental	\$ 36,093,056	\$ 35,192,877	\$ (900,179)
Miscellaneous	570,000	593,586	23,586
Total revenues	<u>36,663,056</u>	<u>35,786,463</u>	<u>(876,593)</u>
EXPENDITURES			
Current:			
Education:			
Instruction	51,768,770	49,859,667	1,909,103
Administration, attendance, and health	1,900,786	1,886,088	14,698
Pupil transportation services	3,059,838	3,565,751	(505,913)
Operations and maintenance	6,514,299	7,029,087	(514,788)
Capital outlay - Capital leases	-	590,361	(590,361)
Debt service	4,210,796	3,625,515	585,281
Total expenditures	<u>67,454,489</u>	<u>66,556,469</u>	<u>898,020</u>
Excess expenditures over revenues	<u>(30,791,433)</u>	<u>(30,770,006)</u>	<u>21,427</u>
OTHER FINANCING SOURCES (USES)			
Transfers from City of Lynchburg	31,786,207	31,162,089	624,118
Transfers to Capital Projects Fund	(994,774)	(1,063,986)	(69,212)
Proceeds from debt - Capital leases	-	1,000,000	1,000,000
Total other financing sources	<u>30,791,433</u>	<u>31,098,103</u>	<u>306,670</u>
Excess (deficiency) of revenues and other financing sources over expenditures	<u>\$ -</u>	<u>\$ 328,097</u>	<u>\$ 328,097</u>

CITY OF LYNCHBURG, VIRGINIA

Combining Statement of Net Assets

Other Component Units

June 30, 2002

	Component Units		
	Business Development Centre, Inc.	Greater Lynchburg Transit Company	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 406,601	\$ 86,591	\$ 493,192
Receivables (net of allowance for uncollectibles)	625,127	200,324	825,451
Prepaid and other assets	-	142,811	142,811
Capital assets			
Land and improvements	-	63,152	63,152
Buildings and improvements	-	327,228	327,228
Machinery and equipment	-	5,216,266	5,216,266
Construction in progress	-	160,917	160,917
Infrastructure	-	103,774	103,774
Total assets	1,031,728	6,301,063	7,332,791
Liabilities			
Accounts payable and other current liabilities	667,661	218,538	886,199
Due to primary government	155,000	132,387	287,387
Total liabilities	822,661	350,925	1,173,586
Net assets			
Investment in capital assets, net of related debt	-	5,871,337	5,871,337
Unrestricted	209,067	78,801	287,868
Total net assets	\$ 209,067	\$ 5,950,138	\$ 6,159,205

CITY OF LYNCHBURG, VIRGINIA

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets

Other Component Units

Year Ended June 30, 2002

	Component Units		
	Business Development Centre, Inc.	Greater Lynchburg Transit Company	Total
Operating revenues			
Charges for services and other operating revenues	\$ 221,434	\$ 904,841	\$ 1,126,275
Miscellaneous	76,740	14,545	91,285
Total operating revenues	298,174	919,386	1,217,560
Operating expenses			
Operations	453,282	1,748,370	2,201,652
Administration	3,866	811,332	815,198
Maintenance and repairs	40,113	570,744	610,857
Total operating expenses	497,261	3,130,446	3,627,707
Operating loss	(199,087)	(2,211,060)	(2,410,147)
Nonoperating revenue (expense)			
Contribution from City of Lynchburg	-	592,322	592,322
Donations and grants	180,048	1,618,738	1,798,786
Depreciation expense	-	(700,180)	(700,180)
Experimental grant expenses	-	(10,991)	(10,991)
Loss on sale of capital assets	-	(134,311)	(134,311)
Total nonoperating revenue (expense)	180,048	1,365,578	1,545,626
Capital contributions	-	3,560,289	3,560,289
Change in net assets	(19,039)	2,714,807	2,695,768
Total net assets - beginning	228,106	3,235,331	3,463,437
Total net assets - ending	\$ 209,067	\$ 5,950,138	\$ 6,159,205

CITY OF LYNCHBURG, VIRGINIA

Combining Statement of Cash Flows
Other Component Units
Year Ended June 30, 2002

	Component Units		
	Business Development Centre, Inc.	Greater Lynchburg Transit Company	Total
Cash flows from operating activities			
Cash received from operations	\$ 552,672	\$ 906,171	\$ 1,458,843
Cash paid to employees and suppliers	(511,998)	(3,168,886)	(3,680,884)
Cash paid for interest	(2,125)	-	(2,125)
New loans disbursed	(87,500)	-	(87,500)
Net cash used in operating activities	(48,951)	(2,262,715)	(2,311,666)
Cash flows from noncapital financing activities			
Subsidies	-	2,235,084	2,235,084
Operating grants and contributions	180,048	-	180,048
Net cash provided by noncapital financing activities	180,048	2,235,084	2,415,132
Cash flows from capital and related financing activities			
Capital contributions	-	3,683,538	3,683,538
Additions to capital assets	-	(3,677,462)	(3,677,462)
Proceeds from sale of capital assets	-	37,558	37,558
Experimental grant and other expenses	-	(35,122)	(35,122)
Net cash provided by capital and related financing activities	-	8,512	8,512
Net increase (decrease) in cash and cash equivalents/investments	131,097	(19,119)	111,978
Cash and cash equivalents/investments			
Beginning of year	275,504	105,710	381,214
End of year	\$ 406,601	\$ 86,591	\$ 493,192
Reconciliation of operating loss to net cash used in operating activities			
Operating loss	\$ (199,087)	\$ (2,211,060)	\$ (2,410,147)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation	-	1,056	1,056
(Increase) decrease in receivables	157,320	(13,215)	144,105
Increase in prepaid expenses and other assets	-	(13,349)	(13,349)
Decrease in accounts payable and other current liabilities	(9,136)	(26,147)	(35,283)
Increase in amounts due to primary government	1,952	-	1,952
Total adjustments	150,136	(51,655)	98,481
Net cash provided by (used in) operating activities	\$ (48,951)	\$ (2,262,715)	\$ (2,311,666)

CITY OF LYNCHBURG, VIRGINIA

Computation of Legal Debt Margin

Year Ended June 30, 2002

Total assessed value of real estate		\$	2,906,873,860	
Legal Debt Limit - 10% of total assessed value of real estate				290,687,386
Less bonded debt as of June 30, 2002	\$	144,972,780		
Net of general obligation highway project notes		(1,790,000)		143,182,780
Legal debt margin			\$	147,504,606

CITY OF LYNCHBURG, VIRGINIA

**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2002**

Federal Granting Agency/ Recipient State Agency/ <u>Grant Program</u>	Federal CFDA Number	Federal Expenditures
<u>PRIMARY GOVERNMENT</u>		
DEPARTMENT OF AGRICULTURE		
Passed through Commonwealth of Virginia:		
Department of Juvenile Justice:		
School Breakfast Program	10.553	\$ 60,551
Department of Social Services:		
Food Stamp Administration	10.561	1,007,780
DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Passed through Commonwealth of Virginia:		
Department of Social Services:		
Family Preservation and Support	93.556	107,697
Foster Care - Title IV-E	93.658	776,659
Social Services Block Grant	93.667	654,207
Independent Living	93.674	383,003
Refugee and Entrant Assistance State - Administered Programs	93.566	1,787
Child Care Assistance	93.575	541,149
Child Care Development Fund	93.596	408,499
TANF Block Grant	93.558	769,205
Low Income Energy Assistance	93.568	37,608
Adoption Assistance	93.659	319,944
Medicaid Assistance	93.778	478,059
State Children's Insurance Program	93.767	28,412
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
Direct payments:		
Community Development Block Grant Program, Entitlement Grants	14.218	1,285,522
Home Investment Partnership Program	14.239	701,778
Lead Hazard Control	14.900	352,206
DEPARTMENT OF JUSTICE		
Direct Payments:		
Public Safety Partnership and Community Policing Grants ("Cops Grant")	16.710	80,054
Local Law Enforcement Block Grant Program	16.592	120,841
Domestic Violence Block Grant	16.530	107,148
Passed Through Commonwealth of Virginia:		
Department of Criminal Justice Services:		
State and Local Narcotics Control Assistance	16.579	11,150
Victim-Witness Services	16.575	158,104

CITY OF LYNCHBURG, VIRGINIA

Schedule of Expenditures of Federal Awards Year Ended June 30, 2002

Federal Granting Agency/ Recipient State Agency/ <u>Grant Program</u>	Federal CFDA Number	Federal Expenditures
DEPARTMENT OF LABOR		
Direct Payments:		
Workforce Investment Act	17.259	\$ 96,286
FEDERAL AVIATION ADMINISTRATION		
Direct Payments:		
Department of Aviation:		
Airport Improvement Program	20.106	858,485
Airport security grant	20.106	104,847
DEPARTMENT OF TRANSPORTATION		
Passed Through Commonwealth of Virginia:		
Department of Motor Vehicles:		
Kemper Street Station	20.205	498,854
Speed Control	20.600	19,997
ENVIRONMENTAL PROTECTION AGENCY		
Passed Through Commonwealth of Virginia:		
Virginia Resources Authority:		
EPA Grant	66.606	3,272,200
Revolving loan	66.458	3,314,255
FEDERAL EMERGENCY MANAGEMENT AGENCY		
Passed Through Commonwealth of Virginia:		
Department of Emergency Services:		
Emergency Management Assistance	83.552	6,858

CITY OF LYNCHBURG, VIRGINIA

**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2002**

Federal Granting Agency/ Recipient State Agency/ <u>Grant Program</u>	Federal CFDA Number	Federal Expenditures
<u>COMPONENT UNIT - LYNCHBURG SCHOOLS</u>		
DEPARTMENT OF AGRICULTURE		
Passed Through Commonwealth of Virginia:		
Department of Agriculture:		
Food Distribution	10.555	\$ 146,251
Department of Education:		
National School Lunch Program	10.555	1,210,160
National School Breakfast Program	10.553	362,510
DEPARTMENT OF LABOR		
Passed Through Commonwealth of Virginia:		
School to Work Program	17.259	80,367
Passed Through Region 2000 Workforce		
Investment Board		
Workforce Investment Act	17.259	88,522
DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Direct Payments:		
Medicaid	93.778	16,260
DEPARTMENT OF EDUCATION		
Direct Payments:		
Passed Through Commonwealth of Virginia:		
Adult Education State Grant Program	84.002	114,101
Title I		
Educationally Deprived Children - LEA	84.010	2,337,734
Title VI-B:		
Elementary and Secondary Education Act (ESEA):		
Chapter II	84.298	148,421
Special Education	84.027	1,074,204
Special Education Preschool Grants	84.173	59,174
Class Size Reduction	84.340	391,283
Vocational Education:		
Basic Grants to States	84.048	268,525
Eisenhower Math and Science	84.281	97,663
Goals 2000	84.276	143,660
Drug Free Schools and Communities	84.186	156,875
Literacy Challenge Grant	84.318	96,368
Even Start	84.213	178,579
Total Primary Government and Lynchburg City Schools		\$ 23,533,802

CITY OF LYNCHBURG, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards June 30, 2002

Note 1. Significant accounting policy

Basis of Accounting:

The accompanying schedule of federal awards is prepared on the modified accrual basis of accounting.

Note 2. Business Development Centre, Inc. - Revolving Loan Fund

The Centre administers the Economic Development Administration Special Economic Adjustment Assistance Revolving Loan Fund Program CFDA 11.307 (01-49-03245) on behalf of the City of Lynchburg. Loans under this program are subject to various restrictions as determined by the Economic Development Administration.

The Centre received the funds indicated as follows:

	Federal	State	Local
Amount received through June 30, 1993	\$ 45,000	\$ -	\$ 24,000
Amount received through June 30, 1994	127,836	-	33,612
Amount received through June 30, 1995	44,027	-	14,676
Amount received through June 30, 1996	108,201	-	36,067
Bad debt charge off for the year ended June 30, 1996	(3,005)	-	(1,002)
Amount received through June 30, 1997	10,268	-	3,423
Recapitalized from earnings for the year ended June 30, 1997	3,005	-	1,002
Amount received through June 30, 1998	159,668	40,000	13,222
Amount received through June 30, 1999	-	-	-
Amount received through June 30, 2000	-	-	-
Amount received through June 30, 2001	-	-	-
Amount received through June 30, 2002	-	-	-
	<u>\$ 495,000</u>	<u>\$ 40,000</u>	<u>\$ 125,000</u>

Note 3. Nonmonetary assistance

Nonmonetary assistance is reported in the Schedule of Federal Awards at the fair market value of the food commodities.

CITY OF LYNCHBURG, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards June 30, 2002

Note 4. Subgrantees

The federal expenditures for the Community Development Block Grant and Home Investment Partnership programs include grants to subrecipients as follows:

<u>Subrecipient</u>	<u>Community Development Block Grant</u>	<u>Home Investment Partnership Act</u>
Lynchburg Redevelopment & Housing Authority	\$ 251,052	\$ -
Lynchburg Community Action Group	95,081	363,416
Lynchburg Historical Foundation	2,692	-
YWCA	20,000	-
Lynchburg Neighborhood Development Foundation	-	331,737
Academy of Music Theater	20,000	-
The Legacy Project, Inc.	24,198	-
Dance Theatre of Lynchburg	20,000	-
RUSH Lifetime Homes	-	15,000
Jubilee Family Development Center	65,767	-
Historic White Rock Cemetery	6,170	-
Design Group	1,028	-
White Rock Hill Neighborhood Council	3,495	-
Alliance for Families and Children	9,167	-
ARC of Central Virginia	11,629	-
New Land Samaritan Inn	10,000	-
Miriam's House	10,000	-
	<u>\$ 550,279</u>	<u>\$ 710,152</u>

Note 5. Program Income

In accordance with terms of the Community Development Block Grant Program, program income totaling \$106,219 was used to reduce the amount of federal funds in conjunction with the program's objective.

Note 6. Virginia Revolving Loan Fund (CFDA 66.458)

At June 30, 2002 the City had an outstanding loan balance through the Virginia Revolving Loan Fund in the amount of \$ 56,096,353 which includes \$ 17,994,225 of federal funds.

CITY OF LYNCHBURG, VIRGINIA

Schedule of Passenger Facility Charges

Year Ended June 30, 2002

<u>Federal Agency/Program Name/Application Number</u>	<u>PFC Balance July 1, 2001</u>	<u>Adjustments</u>	<u>PFC Collected</u>	<u>Interest Earnings</u>	<u>Expenditures</u>	<u>PFC Balance June 30, 2002</u>
<u>FEDERAL AVIATION ADMINISTRATION</u>						
Passenger Facility Charges (95-01-C-00-LYH)	\$ 651,849	\$ -	\$ 136,032	\$ 9,902	\$ 584,961	\$ 212,822

CITY OF LYNCHBURG, VIRGINIA

Schedule of Expenditures of Passenger Facility Charges

Year Ended June 30, 2002

<u>Project</u>	<u>PFC Expenditures</u>
<u>Application 1 (95-01-C-00-LYH)</u>	
Local share reimbursement (non-AIP) Easement Acquisition - Part 77	\$ 9,372
<u>Application 2 (00-02-C-00-LYH)</u>	
Local share reimbursement AIP-20, Airport Service Road/MUFIDS/Equipment	329,928
Local share reimbursement (non-AIP) Overlay General Aviation Apron	232,149
<u>Application 3 (01-03-C-00-LYH)</u>	
Local share reimbursement (non-AIP) PFC Development and Administrative Costs	<u>13,512</u>
Total PFC Expenditures	<u>\$ 584,961</u>

STATISTICAL SECTION

CITY OF LYNCHBURG, VIRGINIA

REVENUES AND EXPENDITURES - GOVERNMENTAL FUND TYPES (1)

LAST TEN FISCAL YEARS

UNAUDITED

	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
REVENUES										
Taxes	\$ 79,872,330	\$ 78,904,476	\$ 75,261,807	\$ 74,095,046	\$ 71,723,052	\$ 68,536,138	\$ 66,590,865	\$ 64,458,307	\$ 62,881,339	\$ 58,530,156
Permits, privilege fees, and regulatory licenses	727,489	700,188	671,067	492,100	392,751	422,388	381,970	388,598	380,479	302,821
Fines and forfeitures	776,701	733,148	807,230	792,086	679,268	542,724	541,199	489,408	383,673	406,029
Revenue from use of money and property	1,665,929	3,158,285	3,220,342	2,867,567	4,169,157	3,279,838	4,166,660	3,959,943	2,716,854	2,452,086
Charges for services	8,337,517	9,197,558	8,764,207	7,327,759	6,922,784	5,903,462	5,065,382	6,005,661	6,471,959	5,780,240
Insurance proceeds	-	4,611,545	4,332,684	5,288,900	3,612,468	4,288,390	2,991,055	3,427,712	2,781,646	3,008,652
Miscellaneous	3,850,868	-	-	-	-	-	-	-	1,157,135	-
Intergovernmental	78,195,680	80,587,660	71,186,815	68,904,310	65,489,879	57,242,760	56,438,450	57,187,029	51,319,218	49,556,964
Total	\$ 173,526,514	\$ 177,902,860	\$ 164,244,152	\$ 159,767,768	\$ 152,989,359	\$ 140,215,700	\$ 136,175,581	\$ 135,876,658	\$ 128,192,304	\$ 120,016,948
EXPENDITURES										
Current:										
Legislative	\$ 425,377	\$ 327,708	\$ 300,727	\$ 227,428	\$ 255,094	\$ 261,364	\$ 203,402	\$ 200,081	\$ 182,800	\$ 168,069
Executive	983,056	762,751	1,822,386	1,155,518	532,436	510,826	480,014	423,330	303,489	298,665
Law	1,491,347	1,083,330	998,275	928,347	265,308	275,340	261,036	227,338	227,181	210,278
Data Processing	426,013	822,687	846,615	776,015	675,008	761,758	505,458	612,480	675,152	633,792
Finance	5,596,688	5,103,639	5,662,574	11,765,885	12,100,005	10,623,069	9,850,325	9,566,060	8,820,739	8,280,641
Personnel and employee development	707,508	697,216	699,557	369,755	564,929	583,808	383,229	359,479	370,672	387,590
Management and budget	42,383	108,211	301,226	392,474	797,605	696,827	644,372	283,913	579,132	505,260
Judicial	3,320,619	3,405,999	2,949,446	2,193,554	4,042,190	3,817,561	3,642,604	3,494,647	3,056,370	3,156,505
Health and human services	19,983,650	17,597,486	16,922,265	16,490,727	14,523,258	12,610,992	11,028,195	11,281,555	10,715,458	9,660,265
Education	66,942,558	66,571,588	62,643,982	62,792,552	57,423,193	54,979,182	51,844,719	52,408,486	50,473,041	48,570,386
Public safety	27,952,985	27,278,757	26,389,286	19,882,774	18,133,322	15,174,649	13,888,705	13,437,225	12,912,822	12,468,102
Public works	12,196,578	13,277,646	16,584,960	15,836,081	10,952,078	11,248,768	10,604,467	10,094,336	11,228,928	10,516,121
Community development	6,408,775	8,253,511	6,720,815	4,331,174	9,134,304	3,776,269	6,229,159	3,932,177	3,453,229	2,736,102
Culture and recreation	1,717,189	1,668,327	1,621,449	1,343,898	2,897,439	2,564,054	2,389,584	2,251,237	2,175,977	2,094,611
Nondepartmental	6,524,184	6,311,656	5,531,207	4,576,635	4,264,737	4,115,884	3,518,314	3,105,723	2,599,860	2,969,024
Capital outlay	20,122,650	19,761,542	21,990,347	10,536,446	18,957,497	23,891,963	14,653,905	13,906,578	12,799,139	13,716,711
Debt services	11,241,561	10,088,434	9,816,503	16,597,525	10,645,514	8,781,195	16,410,267	14,953,295	8,498,849	7,712,637
Total	\$ 185,093,121	\$ 183,090,488	\$ 181,801,820	\$ 170,196,788	\$ 166,163,919	\$ 154,777,509	\$ 146,557,755	\$ 140,537,950	\$ 129,073,666	\$ 125,085,759

(1) Includes the General Fund, Special Revenue Funds, Capital Project Funds, Lynchburg City Schools, and Business Development Centre, Inc. in fiscal years 1993-2001. Business Development Centre, Inc. not included in fiscal year 2002 amounts.

CITY OF LYNCHBURG, VIRGINIA

Table 2

ASSESSED VALUE OF TAXABLE PROPERTY (1)
LAST TEN FISCAL YEARS

UNAUDITED

Fiscal Year	Public Service Corporation					Total
	Real Estate (2)	Personal Property (3)	Machinery and Tools (2)	Real Estate	Personal Property	
2002	\$ 2,743,591,485	\$ 419,024,367	\$ 106,329,586	\$ 163,282,375	\$ 33,883,382	\$ 3,466,111,195
2001	2,497,468,075	438,964,042	133,509,096	146,514,485	33,989,577	3,250,445,275
2000	2,449,420,625	411,292,462	131,817,754	147,404,173	26,207,912	3,166,142,926
1999	2,339,246,125	395,509,615	118,823,544	135,417,968	24,248,605	3,013,245,858
1998	2,290,471,575	376,396,894	103,346,245	134,128,601	24,168,112	2,928,511,427
1997	2,113,157,950	366,471,487	96,942,132	123,404,848	23,396,712	2,723,373,129
1996	2,079,069,127	314,745,348	96,503,007	133,140,649	25,781,569	2,649,239,700
1995	1,973,986,950	279,223,725	86,801,359	121,692,285	23,288,398	2,484,992,717
1994	1,945,411,504	259,155,676	86,768,383	120,539,756	22,428,984	2,434,304,303
1993	1,858,337,850	242,939,621	84,264,723	116,574,538	20,567,284	2,322,684,016

(1) Assessed value is as of January 1 of the previous fiscal year.

(2) Real estate and machinery and tools are assessed at 100% of fair market value.

(3) Effective July 1, 1989, personal property is assessed at 100% of average trade-in value.

Personal Property is assessed at 100% of fair market value.

Sources: City of Lynchburg, Director of Finance, Real Estate Assessor, and Commissioner of Revenue.

CITY OF LYNCHBURG, VIRGINIA

Table 3

PROPERTY TAX RATES - PER \$100 OF ASSESSED VALUATION
LAST TEN FISCAL YEARS

UNAUDITED

Fiscal Year	Real Estate	Personal Property	Machinery and Tools
2002	\$1.11	\$3.30	\$3.00
2001	1.11	3.30	3.00
2000	1.11	3.30	3.00
1999	1.11	3.30	3.00
1998	1.11	3.30	3.00
1997	1.13	3.30	3.00
1996	1.16	3.30	3.00
1995	1.16	3.30	3.00
1994	1.18	3.30	3.00
1993	1.18	3.30	3.00

CITY OF LYNCHBURG, VIRGINIA

Table 4

PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS

UNAUDITED

Fiscal Year	Total Tax Levy	Current Tax Collections (1)	Percent of Levy Collections	Delinquent Tax Collections (1)	Total Tax Collections	Percent of Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes	Percent of Delinquent Taxes to Tax Levy
2002	\$ 48,710,267	\$ 48,051,108	98.65%	\$ 1,017,678	\$ 49,068,786	100.74%	\$ 2,787,472	5.72
2001	46,042,884	45,734,908	99.33%	858,274	46,593,182	101.20%	2,814,953	6.11
2000	44,505,082	43,175,341	97.01%	1,011,960	44,187,301	99.29%	2,812,021	6.32
1999	42,273,206	40,935,842	96.84%	743,598	41,679,440	98.60%	2,937,350	6.95
1998	41,219,739	39,793,041	96.54%	876,002	40,669,043	98.66%	4,716,070	11.44
1997	38,255,319	37,215,109	97.28%	790,508	38,005,617	99.35%	4,165,375	10.89
1996	37,424,590	36,491,353	97.51%	683,305	37,174,658	99.33%	3,915,673	10.46
1995	35,657,992	34,867,332	97.78%	1,208,775	36,076,107	101.17%	3,624,462	10.16
1994	34,171,967	33,098,071	96.86%	1,111,478	34,209,549	100.11%	4,042,557	11.83
1993	32,985,225	31,941,246	96.84%	786,695	32,727,941	99.22%	4,080,159	12.37

(1) Real estate taxes are payable in four installments on or before November 15, January 15, March 15, and May 15 of the fiscal year. Personal property taxes are payable on or before November 15 if such property is titled within the City on or after January 1 of the tax year and before August 15 of the tax year. Taxes on personal property which are titled within the City after August 15 of the tax year are payable on or before February 15 of the following tax year. The tax levy and collections are exclusive of penalty and interest.

RATIO OF NET GENERAL BONDED DEBT TO ASSESSED VALUE AND NET BONDED DEBT PER CAPITA
LAST TEN FISCAL YEARS

UNAUDITED

Fiscal Year	Population	Assessed Value	Gross Bonded Debt (3)	Less Debt Payable from Enterprise Revenues	Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt Per Capita
2002	65,300 (2)	\$ 3,466,111,195	\$ 144,972,780	\$ 63,498,966	\$ 81,473,814	0.02351	1,248
2001	65,269 (1)	3,250,445,275	134,591,831	55,521,290	79,070,541	0.02433	1,211
2000	65,269 (1)	3,166,142,926	126,725,002	54,707,035	72,017,967	0.02275	1,103
1999	64,400 (1)	3,013,245,858	133,714,441	59,337,376	74,377,065	0.02468	1,155
1998	65,200 (2)	2,928,511,427	133,399,514	58,165,679	75,233,835	0.02569	1,154
1997	64,800 (2)	2,723,373,129	115,616,933	52,342,545	63,274,388	0.02323	976
1996	65,800 (2)	2,649,239,700	108,823,274	48,967,080	59,856,194	0.02259	910
1995	65,700 (2)	2,484,992,717	106,503,216	53,142,250	53,360,966	0.02147	812
1994	66,100 (2)	2,434,304,303	109,492,756	55,602,472	53,890,284	0.02214	815
1993	66,000 (2)	2,332,684,016	102,135,389	51,792,019	50,343,370	0.02158	763

(1) Source: United States Census.

(2) Source: Weldon Cooper Center for Public Service, University of Virginia.

(3) Includes all general long-term bonds, bond anticipation notes, and State Literary Fund loans.

CITY OF LYNCHBURG, VIRGINIA

PRINCIPAL TAXPAYERS

June 30, 2002

Table 6

UNAUDITED

Taxpayer	Type of Business	2002 Real Estate Assessed Valuation	2002 Total Assessed Valuation	Percentage of Total Assessed Valuation	2002 Total Tax Levy	Percentage of Total Tax Levy
RR Donnelley Printing Co.	Periodical publication printing	\$ 19,500,000	\$ 45,113,082	1.30%	\$ 984,897	2.02%
Verizon Va, Inc.	Utility	70,447,733	80,203,731	2.31%	913,865	1.88%
Ericsson GE Mobile Communications	Mobile Communications	30,506,300	44,778,965	1.29%	766,951	1.57%
First Colony Life Insurance Company	Life Insurance	38,490,400	47,471,998	1.37%	723,636	1.49%
American Electric Power	Utility	42,589,706	48,927,078	1.41%	545,187	1.12%
Framatone Technologies Group	Nuclear power design and fuel fabrication	21,617,600	30,569,552	0.88%	535,369	1.10%
River Ridge, Ltd.	Shopping mall	32,000,000	32,315,384	0.93%	365,608	0.75%
B.A. Langley	Housing complex	26,521,502	26,523,724	0.77%	294,462	0.60%
Frito Lay, Inc.	Food manufacturer	25,143,300	25,175,875	0.73%	280,273	0.58%
Columbia Gas of Virginia, Inc.	Utility	14,105,699	23,851,527	0.69%	264,917	0.54%
Totals		\$ 320,922,240	\$ 404,930,916	11.68%	\$ 5,675,165	11.65%

Total Assessed Valuation: (1) \$ 3,466,111,195

Tax Levy: (1)

Real Estate	\$ 30,518,394
Railroads and Pipeline	142,587
Public Service Corporations	2,215,324
Personal Property	15,833,962

Total Tax Levy: \$ 48,710,267

(1) Source: City of Lynchburg, Real Estate Assessor, and Commissioner of Revenue.

CITY OF LYNCHBURG, VIRGINIA

Table 7

PROPERTY VALUE, CONSTRUCTION, AND BANK DEPOSITS
LAST TEN FISCAL YEARS

UNAUDITED

Fiscal Year	Property Value (1)				Commercial Construction (2)		Residential Construction (2)		Bank Deposits (3)*
	Commercial	Residential	Exemptions	Total	Number of Units	Value	Number of Units	Value	
2002	\$ 925,670,250	\$ 1,825,363,885	\$ 622,883,800	\$ 3,373,917,935	24	\$ 41,066,199	254	\$ 34,611,807	N/A
2001	864,892,200	1,640,119,075	594,324,850	3,099,336,125	21	18,684,568	128	19,402,235	1,492,613
2000	(4) 836,660,600	1,620,521,425	591,109,500	3,048,291,525	41	53,949,457	189	81,549,864	1,360,203
1999	782,851,250	1,564,690,825	561,037,850	2,908,577,925	90	40,883,124	862	42,939,788	1,359,876
1998	757,491,150	1,543,357,925	542,149,000	2,842,998,075	114	296,777,401	460	18,278,629	1,233,851
1997	718,413,000	1,403,375,350	536,254,400	2,658,042,750	159	50,479,893	602	17,375,955	785,306
1996	699,698,450	1,388,162,800	529,951,650	2,617,812,900	135	37,990,862	429	13,291,988	760,000
1995	681,951,050	1,300,962,750	511,324,030	2,494,237,830	133	203,134,725	416	50,346,305	754,123
1994	665,795,200	1,289,101,250	509,912,430	2,464,808,880	148	56,134,725	577	15,668,405	756,589
1993	656,829,900	1,210,312,100	488,239,272	2,355,381,272	159	53,567,250	850	14,639,034	761,315

* Amounts expressed in thousands

(1) Source: Real Estate Assessments.

(2) Source: City of Lynchburg Building Inspection Department.

(3) Source: FDIC

(4) In FY 2000 the City changed the way it issued construction permits to differentiate between new construction versus remodeling and additions. For FY 2000 and 2001, only new construction is shown.

RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR GENERAL FUND
BONDED DEBT TO TOTAL GENERAL FUND EXPENDITURES, TRANSFERS TO SCHOOL
OPERATING FUND, AND RESERVE ALLOCATIONS
LAST TEN FISCAL YEARS

UNAUDITED

Fiscal Year	Principal (1)	Interest (2)	Total Debt Service	Total General Governmental Expenditures (3)	Ratio of Debt Service to General Governmental Expenditures (4)
					%
2002	\$ 7,170,673	\$ 4,070,888	\$ 11,241,561	\$ 114,907,592	10
2001	5,528,883	3,846,500	9,375,383	118,766,574	8
2000	5,566,054	3,543,009	9,109,063	112,208,412	8
1999	6,233,829	3,481,876	9,715,705	104,639,900	9
1998	6,317,424	3,684,107	10,001,531	107,918,885	9
1997	5,235,179	3,546,016	8,781,195	98,253,772	9
1996 (5)	6,347,441	3,404,227	9,751,668	97,292,266	10
1995 (6)	5,920,256	3,308,839	9,229,095	87,472,398	11
1994	5,607,581	2,891,268	8,498,849	84,399,351	10
1993	4,966,771	2,745,866	7,712,637	84,807,494	9

(1) General obligation bonds reported in the enterprise funds, special assessment debt with government commitment, and special revenue funds have been excluded, with the exception of 1992 and 1993 School General Obligation bonded debt, which was presented as Special Revenue Debt.

(2) Excluding bond issuance and other costs.

(3) Includes all General Fund expenditures, operating transfers out, and transfers to component units.

(4) Per the City of Lynchburg's Financial Management Policies adopted August 10, 1999, and reaffirmed on November 14, 2000:

Annual debt service expenditures for tax-supported debt should not exceed 10% of the following:

Total General Fund Expenditures plus (a) transfers to the School Operating Fund and (b) Reserve Allocations.

(5) Principal payments exclude \$6,658,599 of school retirement incentive liability.

(6) Principal payments excluded pay-off of bond anticipation note in the amount of \$5,725,000.

CITY OF LYNCHBURG, VIRGINIA
DEMOGRAPHIC STATISTICS
LAST TEN FISCAL YEARS

Table 9

UNAUDITED

Fiscal Year	Population (1)	Median Age (1)	Per Capita Income (3)	School Enrollment (4)	Unemployment Rate (3)
2002	65,269 (2)	N/A	N/A	9,064	N/A
2001	65,269 (2)	35.1	N/A	9,212	4.5
2000	65,269 (2)	35.1	\$ 18,263	9,296	2.1%
1999	64,400 (2)	33.1	23,649	9,387	2.5
1998	65,200 (2)	33.1	22,783	9,515	4.1
1997	64,800 (2)	33.1	22,169	9,506	N/A
1996	65,800 (2)	33.1	21,434	9,476	N/A
1995	65,700 (2)	33.1	20,849	9,403	3.8
1994	66,100 (2)	33.1	18,825	9,314	5.0
1993	66,000 (2)	33.1	18,082	9,328	5.1

(1) Source: United States Census - 2000

(2) Source: Weldon Cooper Center for Public Service, University of Virginia.

(3) Source: Virginia Employment Commission (annual average).

(4) Source: City of Lynchburg School District.

CITY OF LYNCHBURG, VIRGINIA

Table 10

MISCELLANEOUS STATISTICS

June 30, 2002

Unaudited

Date of Incorporation	1805
Date of Independent City Status	1852
Form of Government	Council-Manager
Number of employees (excluding police and fire):	
Classified	789
Exempt	301
Area in square miles	50.107 square miles
City of Lynchburg facilities and services:	
Miles of Streets	314
Number of street lights	10,150
Number of traffic signals	110
Culture and recreation:	
Community centers	7
Parks	16
Park acreage	835 ⁽¹⁾
Golf courses	0
Swimming pools	1
Tennis courts	40 ⁽²⁾
Gymnasiums	7
Fire protection:	
Number of stations	8
Number of fire personnel and officers	186
Number of calls answered	602 per month (est.) ⁽³⁾
Number of inspections conducted	1425
Police protection:	
Number of stations	1
Number of police personnel and officers	216
Number of patrol units	45
Number of law violations	
Physical arrests	7,563
Traffic violations	15,190
Parking violations	9,930
Number of EMS calls	11,864

CITY OF LYNCHBURG, VIRGINIA

MISCELLANEOUS STATISTICS

June 30, 2002

Unaudited

Table 10
Concluded

Sewerage system:	
Miles of sanitary sewers	450
Miles of storm sewers	Not Mapped
Number of service connections	17,300
Daily average treatment in gallons	13 Million
Maximum daily capacity of treatment plant in gallons	22 Million
Water system:	
Miles of water mains	400
Number of service connections	21,386
Number of fire hydrants	2,274
Daily average consumption in gallons	12 Million
Maximum daily capacity of plant in gallons	26 Million
Education:	
Number of elementary schools	11
Number of elementary school instructors	370
Number of secondary schools	5
Number of secondary school instructors	374
Number of community colleges	1
Number of universities	4
Facilities and service not included in the reporting entity:	
Hospitals:	
Number of Hospitals	2
Number of patient beds	636

⁽¹⁾ Including Blackwater Creek Natural Area.

⁽²⁾ 10 Locations with a total of 40 courts-including schools.

⁽³⁾ Fire calls only, not EMS.

COMPLIANCE SECTION



**Independent Auditors' Report on Compliance and on Internal
Control over Financial Reporting in Accordance with
*Government Auditing Standards***

To the Members of the City Council and City Manager
City of Lynchburg, Virginia

We have audited the basic financial statements of the City of Lynchburg, Virginia as of and for the year ended June 30, 2002, and have issued our report thereon dated November 27, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Lynchburg's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Lynchburg's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the City in a separate letter dated November 27, 2002.

This report is intended solely for the information and use of the City Council, audit committee, management and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Cherry, Bekeets Halland, L.L.P.

Lynchburg, Virginia
November 27, 2002



**Independent Auditors' Report on Compliance with Requirements
Applicable to Each Major Federal Program and Internal Control
over Compliance in Accordance with OMB Circular A-133**

To the Members of the City Council and City Manager
City of Lynchburg, Virginia

Compliance

We have audited the compliance of the City of Lynchburg, Virginia with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. The City of Lynchburg's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Lynchburg's management. Our responsibility is to express an opinion on the City of Lynchburg's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Lynchburg's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Lynchburg's compliance with those requirements.

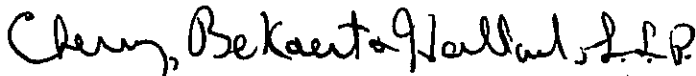
In our opinion, the City of Lynchburg complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.

Internal Control Over Compliance

The management of the City of Lynchburg is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Lynchburg's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessary disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one of more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the City Council, audit committee, management and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Lynchburg, Virginia
November 27, 2002



Independent Auditors' Report on Compliance with Requirements Applicable to the Passenger Facility Charge Program and on Internal Controls over Compliance in Accordance with the Passenger Facility Charge Program Audit Guide

To the Members of the City Council and City Manager
City of Lynchburg, Virginia

Compliance

We have audited the compliance of the City of Lynchburg, Virginia, with the compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration (Guide), for its passenger facility charge program for the year ended June 30, 2002. Compliance with the requirements of laws and regulations applicable to its passenger facility charge program is the responsibility of the City of Lynchburg's management. Our responsibility is to express an opinion on the City of Lynchburg's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the passenger facility charge program occurred. An audit includes examining, on a test basis, evidence about the City of Lynchburg's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Lynchburg's compliance with those requirements.

In our opinion, the City of Lynchburg, Virginia, complied, in all material respects, with the requirements referred to above that are applicable to its passenger facility charge program for the year ended June 30, 2002.

Internal Control Over Compliance

The management of the City of Lynchburg, Virginia, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws and regulations applicable to the passenger facility charge program. In planning and performing our audit, we considered the City of Lynchburg's internal control over compliance with requirements that could have a direct and material effect on the passenger facility charge program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Guide.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one of more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws and regulations that would be material in relation to the passenger facility charge program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the City Council, audit committee, management and the Federal Aviation Administration and is not intended to be and should not be used by anyone other than these specified parties.

Cherry, Beckert & Halland, L.L.P.

Lynchburg, Virginia
November 27, 2002

CITY OF LYNCHBURG, VIRGINIA

Schedule Of Findings And Questioned Costs

For the Fiscal Year Ended June 30, 2002

A. Summary of Audit Results

1. The auditor's report expresses an unqualified opinion on the financial statements of the City of Lynchburg.
2. No reportable conditions relating to the audit of the financial statements are reported in the Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of the City of Lynchburg were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal award programs are reported in the Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for the City of Lynchburg expresses an unqualified opinion.
8. The programs tested as major programs were:

<u>Name of Program</u>	<u>CFDA #</u>
CDBG Entitlement Grant	14.218
EPA Revolving Loan	66.458
Kemper Street Station	20.205
Airport Security Grant	20.106
Medicaid Assistance	93.778
Title I	84.010
National School Breakfast Program	10.553
National School Lunch Program	10.555

9. The threshold for distinguishing Types A and B programs was \$706,014.
10. The City of Lynchburg was determined to be a low risk auditee.
11. Passenger Facility Charge Program:
 - a. Material weakness identified? No
 - b. Reportable condition not considered to be material weaknesses? None reported
 - c. Noncompliance material to the passenger facility charge program? No
 - d. Type of auditor's report on compliance for major programs Unqualified
 - e. Any audit findings disclosed No

CITY OF LYNCHBURG, VIRGINIA

Schedule Of Findings And Questioned Costs For the Fiscal Year Ended June 30, 2002

B. Findings - Financial Statement Audit

None

C. Findings and Questioned Costs - Major Federal Awards

None

D. Findings – Passenger Facility Charge Program

None